TELEPHONE REPORT

TO THE

REGULATORY FLEXIBILITY COMMITTEE

OF THE

INDIANA GENERAL ASSEMBLY

BY THE
INDIANA UTILITY REGULATORY COMMISSION

SEPTEMBER 1999

TELEPHONE REPORT TO THE REGULATORY FLEXIBILITY COMMITTEE OF THE INDIANA GENERAL ASSEMBLY

An analysis of the effects of competition on universal service and on pricing of all telephone services under the jurisdiction of the Indiana Utility Regulatory Commission.

September 1999

Submitted by the Indiana Utility Regulatory Commission

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Local Exchange Competition

State commissions are charged with performing specific regulatory duties under the Telecommunications Act of 1996 (TA-96) that are meant to initiate pro-competitive policies at the local exchange level. State commissions must also undertake new administrative responsibilities that include advancing the goals of universal service and establishing policies for access to advanced telecommunications services by schools, libraries and health care providers.

Since last year's report, the following progress has been made in the local telephone exchange competition investigation and implementation of the TA-96:

- The Commission reviewed for compliance and approved 126 voluntarily negotiated interconnection agreements and amendments between incumbent and new carriers to allow entry into local telephone service.
- On November 4, 1998, in Cause No. 41324, the Commission opened an investigation into Operational Support Systems (OSS) that incumbent local exchange carriers (ILECs) must provide to new competitors. (OSS are systems necessary for transition of customers from ILECs to competitors).
- On November 12, 1998, in Cause No. 41077, the Commission determined that the local calling scope restriction would no longer apply to AT&T, which allows the local calling area to be expanded.
- On December 22, 1998, in Cause No. 41083-S1, the Commission opened an investigation into the impact of Long Term Number Portability on E911 services. (Number portability allows a customer to indefinitely retain the same telephone number).
- On September 16, October 28, and December 9, 1998, in Cause No. 40785, the Commission approved orders in its universal service reform and access reform investigation, Affordability and Comparability, 254(k) and Confiscation, and Access Charge Reform, respectively, that established guidelines for accomplishing rate conformance with the TA-96.
- On April 28, 1999, in Cause No. 39983, the Commission issued a straw man proposal to streamline the Certificate of Territorial Authority and tariff filing provisions for the resellers of bundled local exchange service.
- On May 14, 1999, the Commission approved Ameritech Indiana's wholesale tariff, setting discounts at 21.46% for carriers that request operator services/directory assistance and 22.13% for carriers that do not request operator services/directory assistance.
- On May 25, 1999, the Commission initiated a rulemaking to update Indiana's current billing rules to largely mirror the FCC's new federal rules.

As of August 31, 1999, the Commission had received 37 requests for arbitration under the TA-96 (30 involved Ameritech Indiana; 6 involved GTE; and 1 involved Cincinnati Bell Telephone). Twenty-six of the Commission's arbitration proceedings were appealed to the United States District Court for the Southern District of Indiana.

As of August 31, 1999, the Commission has approved 126 voluntarily negotiated interconnection agreements and amendments, many of which have been for reciprocal compensation between ILECs and the providers of cellular/mobile telecommunications services. The Commission met all of the relevant statutory deadlines set forth in the TA-96 regarding negotiated and arbitrated agreements and, in many cases, issued its orders in advance of the required date.

To date, the Commission has issued a total of 121 certificates of territorial authority (CTAs) to competitive local exchange carriers (CLECs) to provide local exchange telecommunications services in competition with incumbent local exchange carriers. Thirty-six of theseCTAs were for the provision of local exchange services through the alternative local exchange carrier's (ALEC) own facilities, whereas the remainder of the CTAs were granted for the provision of bundled local exchange services purchased for resale from ILECs.

The TA-96 is a truly landmark piece of legislation because it seeks to inspire competition in one of the oldest, and perhaps most important, monopoly markets: the market for local telephone service. Three years after the Act was signed into law, however, most markets for local telephone service in the United States have witnessed the development of little, if any, local competition. Indeed, according to the most recent Local Competition Report published by the FCC[1], CLECs are believed to have gained less than a 5 percent share of the total market for local telephone service in the United States.

In the five-state Ameritech region, Illinois has witnessed the greatest growth in competition for local telephone service, with approximately 3 percent of the total access lines in the state served by a CLEC. Indiana, in contrast, lags far behind Illinois and the other three Ameritech states, with less than 1 percent of total access lines served by a CLEC. However, while the total growth of local competition in the state and the growth of competition within Ameritech's service area in Indiana have been slower, competitors appear to be making greater inroads in GTE's Indiana service area than in neighboring states. Competition is virtually non-existent in Sprint-United's territory in Ohio and Indiana. Furthermore, the IURC expects the advent of facilities-based competition for local telephone service to grow at a slower rate in Ameritech Indiana's territory than in the other four states, since much smaller percentages of access lines were served by a central office in which a competitor has a collocation agreement as of December 31, 1998.

[1] "Local Competition: August 1999." Common Carrier Bureau. Released August 31, 1999.

The IURC is concerned about the slow development of local competition in Indiana. Competition not only is expected to bring consumers the opportunity to choose a telecommunications carrier rather than relying on a single, monopoly provider, the advent of competition also is expected to inspire innovation in technology and service offerings, decrease prices to cost, and provide improved service quality as a once-monopoly provider is forced to compete with new entrants. However, neither Ameritech Indiana nor GTE has filed a petition to lower their respective local service rates, and, while both carriers have revised their tariffs to address the threat of future competition, many of these revisions entail the addition of attractive, long-term package discounts that are designed to prevent the end users from signing up with a new, competitive carrier.[2] Most discouraging is the fact that facilities-based competition, or the provision of local service by a CLEC through unbundled network elements (UNEs), was virtually non-existent in Indiana as of December 31, 1998. Many experts believe that UNEs and interconnection are the only avenues for the development of true, lasting competition for local telephone service, since a CLEC that provides service through the resale of an underlying ILEC's service has very little room to compete with the ILEC on price. Furthermore, of the resale competition that can be found in Indiana, more than one-half of the residential lines provided by CLECs as of December 31, 1998 were provided by prepaid local carriers, or carriers that target customers who cannot get phone service from the ILEC due to bad debt/credit and agree to pay up to $60 per month before local dial tone is provided. (The majority of Indiana ILECs offer basic local telephone service for less than $20 per month.) Not only is competition slow to develop in Indiana, but the competition that is occurring is for customers whom the ILECs do not want to serve.

There are many significant factors that could explain why competition has been slower to develop in Indiana than in neighboring states. Indiana's population distribution and characteristics differ from those of Illinois, Michigan, Ohio and Wisconsin. Specifically, Indiana has a smaller total population, a larger rural population, and smaller metropolitan areas than all other Ameritech states except Wisconsin. Further, Indiana's population has the lowest median household income in the region. It is therefore reasonable to assume that Indiana's low rankings on population factors that are attractive to CLECs most likely explain, at least in part, the slow growth of competition for local telephone service within the state.

Although data from the FCC's Fourth Local Competition Survey show little competition in the state as of December 31, 1998, this is not to imply that competition will never develop in Indiana. Many CLECs may be targeting the 10, 20, 50 or 100 largest metropolitan statistical areas (MSAs) in the nation as part of their entry strategy. As such, while Indiana communities might not have been included in many CLECs' initial roll out of service, competition could be on its way. Indeed, while the other four states in the Ameritech region have more competition at this point in time, Indiana might meet or exceed these states in

[2] See, for example, Cause No. 40612, In the Matter of an Investigation into Centrex Charters Offered by Indiana Bell Telephone Company d/b/a Ameritech Indiana, July 1996; and Cause No. 41491, In the Matter of the Verified Petition of GTE North Incorporated and Contel of the South, Inc. for Commission Approval of a Competitive Tariff Offering., filed July 23, 1999.

the growth of local competition in the near future. The Commission and other state and local policy makers should continue to adopt policies that enhance the TA-96's goal of promoting competition for local telephone service. In addition, the Commission will continue to measure the growth of local competition to benchmark the agency's success in promoting competition, and fine tune its policies as necessary.

Mergers

Mergers are viewed with caution by federal and state regulatory commissions because the merged entity might exercise increased market power by setting price levels, limiting innovation, and restricting the range and quality of services to consumers' detriment. Mergers can also threaten state commerce by reducing job levels or draining employees from one state to another. Some mergers, however, result in substantial benefits to the merged companies, customers and employees of the merged companies. Evaluation of any merger or acquisition should objectively analyze both positive and negative potential outcomes.

On June 29, 1998, the IURC announced an investigation into the merger between American Electric Power (AEP) and Central and South West Corporation (CSW).[3] During the pendency of the Commission's investigation of the AEP/CSW merger, a settlement was reached between AEP and the Commission's staff negotiating team. The settlement agreement approved by the IURC requires the companies to share $66,238,000 of merger benefits (in the form of rate reductions) with customers during the first 8 years of the merger.[4] In addition to sharing some of the direct financial benefits, other elements of the settlement covered reliability, quality of service, savings from fuel and purchased power costs, stranded costs, market power, and affiliate standards. See the Commission's "Energy Report, September, 1999" for details. This agreement was reached prior to the Indiana Supreme Court ruling that the IURC did not have jurisdiction over such mergers.

As is the case with all mergers within the public utility arena, telecommunication mergers raise issues such as the merger's impact on competition, future authority over the merged entity, employment levels, quality of service, dollar cost savings, and allocation of dollar cost savings to end-users. These issues largely concern protecting the current customers of the telecommunications carrier(s) involved in the merger.

In the case of mergers between incumbent local exchange carriers, the IURC must apply stringent review standards to protect customers. Ameritech Indiana, for example, serves approximately 65 percent of the access lines in the State of Indiana. Furthermore, as of December 31, 1998, competitive local exchange carriers served less than 1 percent of Ameritech Indiana's voice-grade access lines. Therefore, the SBC/Ameritech and GTE/Bell Atlantic mergers raise many issues of concern to the IURC, since customers of these companies have no alternative provider should either company's service decline as the result of the merger.

[3] Cause No. 41210.
[4] Order in Cause 41210.

Additionally, because both Ameritech Indiana and GTE own the majority of the facilities used to provide telecommunications service in Indiana, the IURC's review of these mergers involves another very important concern: the impact of the mergers on competition, especially emerging competition for local telephone service.

The Commission asserted jurisdiction over the proposed mergers of SBC/Ameritech Indiana and Bell Atlantic/GTE under I.C. 8-1-2-83. On July 30, 1999, the Indiana Supreme Court ruled that "section 83(a) does not require Commission approval of this proposed transaction in the outstanding securities of these public utilities or their parents." [5]

The Court specifically noted that if the Commission is to acquire jurisdiction over mergers, the jurisdiction must be specifically conferred by the legislature.[6] In writing for the majority, Justice Boehm stated:

> The Commission and others make several compelling arguments, all of which boil down to the need for pre-merger investigation and approval by the Commission to protect the consumers of Indiana... It may well be that it is more efficient or effective in protecting the interests of the citizens of our state for the Commission to have power to disapprove a shift in control of a utility, rather than simply power to regulate the utility after its ownership is transferred. However, those arguments are for the General Assembly, not this Court or the Commission. (emphasis added)

In his Minority Opinion Chief Justice Shepherd observed that, as a state, we have missed opportunities in banking and, perhaps, with our policies toward the insurance industry. The Chief Justice wrote:

> I find some modest solace in the acknowledgement of my colleagues that the policy arguments favoring supervision of business combinations...are compelling...[W]e cannot hope to thrive in the modern global economy unless our state acts with force and foresight at every opportunity.

The IURC's current authority is likely to be limited to trying to protect Indiana consumers from adverse effects that occur after a merger rather than having any direct authority over the merger's consummation. Merger review and approval authority, including the ability to condition merger approval on requiring the merging companies to take specific steps to mitigate market power, is essential for the protection of customers from potential abuses of market power. It is also necessary for the Commission to have the requisite statutory authority and staff to ensure compliance.

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[5] 1999 Ind. LEXIS 547 (July 30, 1999)

[6] Indiana Bell Telephone Co. d/b/a Ameritech and SBC Communications, Inc. v. Indiana Utility Regulatory Comm'n, et al., 1999 Ind. LEXIS 548 (July 30, 1999)

It is undeniable that if the IURC had jurisdiction to approve these transactions, the IURC could more effectively protect the public interest. Instead, the State of Indiana must rely on the federal government to protect the interests of the citizens of the State of Indiana. The IURC's fundamental concern is that the State of Indiana will not benefit as much, or will be harmed to a greater extent, than states with the authority to develop their own merger conditions, such as Illinois and Ohio. The fact that Ameritech Indiana withdrew certain "voluntary commitments" (including a customer credit of $4 million) after the Supreme Court's decision demonstrates that the State of Indiana would have benefited from a law authorizing the Commission to approve or disapprove this merger, since SBC/Ameritech is more willing to address the concerns of a Commission that has the authority to review its proposed merger than one which does not. It is clearly evident from comparing states with jurisdiction over mergers involving holding companies and states without jurisdiction that Indiana has lost an opportunity to enhance the general public interest.

Enforcement Authority

The Commission has spent much of the past three years implementing the market-opening provisions of the TA-96 and the FCC orders which further clarify how these provisions should be applied. In addition, the Commission continues to ensure that rates for telecommunications services are reasonable, and that Hoosiers have access to adequate service.

One of the major obstacles the Commission has faced, however, is that its orders are only as good as its ability to enforce them. The Commission has undertaken investigations, issued orders, and established rules to open once-monopoly markets for local telephone service while ensuring that until true, lasting competition develops, those customers who are served by incumbent local exchange carriers have adequate service. Unfortunately, many of the Commission's rules and orders have been largely ignored, thus leading to delays in the development of local competition and declining service quality.

Unfortunately, the TA-96 provides little guidance to state commissions on how to resolve inter-carrier disputes regarding the implementation of interconnection agreements, nor does it impose penalties that state commissions can asses if a carrier engages in anti-competitive behavior. While TA-96 establishes expedited statutory deadlines for a state commission to review negotiated and arbitrated interconnection agreements, it provides no timeline for resolving post-interconnection agreement disputes.

As competitors attempt to enter Indiana local exchange telephone markets, they often find that their entry is discouraged or delayed by incumbent providers. Increasingly, the Commission must resolve disputes between competitors and incumbents regarding interconnection agreements and the implementation of operational support systems (OSS), which are the services performed by incumbents to switch customers to a new carrier, transition billing, etc. As the Commission or its staff attempts to resolve both interconnection and OSS-related disputes between incumbents and competitors, it finds that few incentives exist to encourage incumbents to abide by the terms of a Commission-facilitated resolution. The Commission believes that

effective competition in Indiana telecommunications markets will continue to develop slowly unless the Commission is vested with the ability to enforce its orders through fines and other meaningful penalties. Because the Commission has no means to enforce its orders or penalize carriers for anti-competitive behavior, carriers most likely will continue to ignore Commission orders and stall the development of local competition in Indiana.

Maintaining a high quality of service is a cornerstone of utility regulation. Unfortunately, service quality data for Ameritech Indiana, (the state's largest provider of local telephone service with more than 65 percent of the access lines in Indiana), shows that the carrier's quality of service has consistently declined over the past three years. Unfortunately, without the authority to issue fines or impose other penalties, the IURC cannot ensure that utilities will provide high quality service. The Commission must have the tools to ensure that utilities provide adequate service for captive customers as the market transitions to greater competition.

Streamlined Regulation

As markets change, so must the Commission's regulatory and administrative procedures. By the end of 1999, the Commission hopes to implement streamlined application and tariff approval procedures that will eliminate the regulatory burdens faced by certain classes of telecommunications carriers. At the same time, the Commission also plans to become more responsive to inter-carrier disagreements through the adoption of an expedited dispute resolution process. All of these regulatory revisions reflect the need to amend regulation to promote competition for telecommunications services.

Financial And Other Industry Statistics

The telecommunication services industry in Indiana represents a market with intrastate gross revenues for 1998 of $2.4 billion. This represents a decrease in revenues of 2.65 percent over the 1997 level. The compound annual growth rate during the 1994-1998 period was 3.97 percent. LEC intrastate operations accounted for $1.46 billion or 61.77 percent of the telecommunications gross intrastate revenues in 1998. Facilities-based IXCs accounted for 15.83 percent of the gross intrastate telecommunications services revenues. AT&T Communications' share of the IXC facilities-based intrastate gross revenues amounted to 60.8 percent in 1998, down from 68.8 percent in 1997 and down from 70.6 percent in 1994.

Indiana LECs have continued to proceed with modernization programs in their telecommunications networks. As a result of such modernization programs, 92.55 percent of the LECs' access lines are served by fully digital central office (CO) switching equipment. Ameritech Indiana is now the only LEC that is not fully digital. Advanced telecommunication services can best be provided by digital switching equipment. The additional benefit of investment in fully digital CO switching equipment has been that the proportion of Indiana LEC access lines served by "equal access" COs increased to 100 percent in 1998 (under "equal access" end-users are able to reach the networks of their preferred IXCs with simplified dialing such as "1+").

Conclusion

In last year's report, the Commission noted that it was seeing trends emerge in the area of complaints - interconnection and service quality related - that highlighted the Commission's lack of adequate enforcement authority. The lack of adequate enforcement authority continues to hamper the Commission's ability to resolve interconnection and quality of service problems. It is important to recognize that the Commission's orders are only as effective as the Commission's ability to enforce them. Without the ability to: 1) levy significant monetary penalties against a telecommunications carrier for non-compliance; 2) order a telecommunications carrier to cease and desist from the violation or noncompliance; 3) mandate corrective action to alleviate the violation or noncompliance; and/or 4) revoke or modify the terms of the telecommunications carrier's certificate of territorial authority, certificate of public convenience and necessity, or any other permit, Commission-promulgated rules and orders which seek to protect the public interest might be reinterpreted, ignored, or implemented only after great delay. The IURC believes that it would be sound public policy for the Indiana General Assembly to provide the IURC with adequate enforcement authority similar to that proposed by SB 177 introduced into the 1999 Legislative Session.

Without merger approval authority, the Commission and the State of Indiana must rely on the federal government to protect the interests of the citizens of the State of Indiana regarding any adverse impacts of holding company mergers. The IURC's fundamental concern is that the State of Indiana will not benefit as much, or will be harmed to a greater extent, than states with the authority to develop their own merger conditions, such as Illinois and Ohio. Indeed, SBC/Ameritech's submission of Indiana-specific voluntary commitments—including penalties for poor service quality, a rate rebate, commitments made to competitors to open monopoly markets, and infrastructure guarantees—and subsequent retraction of these commitments after the July 30 Indiana Supreme Court decision suggests that Indiana citizens will be worse off than citizens of other states such as Ohio, California, and Illinois as a result of this and future mergers. The states that can assert jurisdiction will serve as better competitive arenas for telecommunications providers, will enjoy an improved telecommunications infrastructure, and their citizens will receive some of the flow through of cost savings resulting from a merger. We conclude that the lack of specific legal authority to review mergers between holding companies reduces the Commission's ability to act in the public interest and Indiana will derive less benefit from the transaction, or will be harmed to a greater extent, than states with such authority. The Commission believes that it would be appropriate public policy for the Indiana General Assembly to grant the IURC jurisdiction and approval authority over the merger of utility holding companies.

Without jurisdiction over holding company mergers and without adequate enforcement capability, it will be difficult for the Commission to promote competition in the local exchange market.

PART I

CURRENT ISSUES

1. INTRODUCTION

Legislative Mandate

This report to the Regulatory Flexibility Committee of the Indiana General Assembly is mandated by the provisions of P. L. 55-1992, § 1, currently codified as Ind. Code 8-1-2.6-4(c) that:

> The commission shall, by July 1, 1993, and each year thereafter, prepare for presentation to the regulatory flexibility committee an analysis of the effects of competition on universal service and on pricing of all telephone services under the jurisdiction of the commission.[7]

The Regulatory Flexibility Committee of the Indiana General Assembly is also required under the provisions of Ind. Code 8-1-2.6-4(d) to:

> issue a report and recommendations to the legislative council by November 1, each year that is based on a review of the following issues:
>
> (1) The effects of competition in the telephone industry and impact of competition on available subsidies used to maintain universal service.
> (2) The status of modernization of the public telephone network in Indiana and the incentives required to further enhance this infrastructure.
> (3) The effects on economic development and educational opportunities of this modernization.
> (4) The current method of regulating telephone companies and the method's effectiveness.
> (5) The economic and social effectiveness of current telephone service pricing.
> (6) All other telecommunications issues the committee deems appropriate.

and, Senate Enrolled Act 177 to:

> study the enforcement powers of the Indiana utility regulatory commission, before January 1, 2000.

Scope of Report

The Telecommunications Act of 1996 (TA-96), which was signed into law on February 8, 1996, affects nearly all areas of intrastate telecommunications services either directly through actions required of the states or indirectly through rulemakings required of the Federal Communications Commission (FCC). As the first legislative reform of the nation's telecommunications industry in 62 years, the TA-96 established a goal to introduce competition into all facets of the telecommunications industry. The TA-96 gave state commissions considerable responsibility to implement the provisions of the Act related to intrastate

[7] Senate Enrolled Act No. 222, § 1.

telecommunications, particularly local exchange competition and universal service. A great deal of the Indiana Utility Regulatory Commission's (IURC or Commission) time and resources has been devoted to that task over the last three years. The Commission's 1999 report focuses on its efforts to carry out the goals and objectives of the TA-96.

The report also contains an analysis of market performance since competition was introduced in the local exchange market under the TA-96, and an update of the telecommunications industry statistics contained in the five previous reports submitted by the Commission.

2. MARKET PERFORMANCE DATA AND ANALYSIS

There are several basic, quantitative measures that can gauge local competition. Given that both the FCC and state commissions must work under largely the same regulatory framework, (i.e., the TA-96), all states must undertake certain obligations to ensure that local competition develops. This section uses data through December 31, 1998 to measure the growth of local competition in Indiana. It also compares local competition in Indiana to the market shares earned by competitive local exchange carriers in the four other Ameritech states (Illinois, Michigan, Ohio and Wisconsin).[8]

Benchmarks that can be used to measure competition are listed below:

- the number of CLECs certified to provide service in Indiana;
- the number of certified CLECs that have an approved tariff on file with the Commission;
- the number of Commission-approved interconnection agreements;
- the number of access lines (or "loops") served by a CLEC, either on a bundled resale basis or through the purchase of unbundled network elements from an ILEC; and
- the number of lines served by an ILEC central office in which at least one competitive carrier has an arrangement to collocate equipment.

These measures of local competition will be discussed in the following sections.

Certification and Tariffing

Carriers that intend to compete against incumbent providers in the market for local telephone service must request and be granted a Certificate of Territorial Authority (CTA) from the Commission. As of December 31, 1998 the Commission had issued 88 CTAs to CLECs seeking to provide local exchange telecommunications services in the State of Indiana. Four of these CTAs were for the provision of local exchange services through the CLEC's own facilities, 57 were granted for the provision of bundled resale of local exchange services, and 27 were granted to CLECs that sought to provide service on both a facilities-basis and a bundled resale basis. As shown by these statistics, the majority of CLECs have decided to initially enter the market for local exchange service as resellers rather than as facilities-based carriers. This

[8] The Ameritech region will be the area of study in all five states. Ameritech is by far the largest ILEC and thus has a significant impact on the policies developed by state regulatory bodies. Ameritech also is the most significant competitor that new carriers face in each state.

business-strategy is easy to understand, since the resale of another carrier's service is quicker, cheaper, and easier than providing service on a facilities-basis, which would require the purchase, installation, and management of expensive telecommunications equipment.

In addition to obtaining a CTA, a CLEC in Indiana is required to have an approved tariff on file with the Commission prior to providing service to end users. As of December 31, 1998, only 23 of the 88 CLECs certified to provide local exchange service in the State of Indiana had an approved tariff on file with the Commission.

Interconnection Agreements

Many of the CLECs that have a CTA have reached interconnection agreements with an ILEC; as stated above, these interconnection agreements can provide the CLEC with alternatives to constructing certain telecommunications facilities through access to unbundled network elements provided by the ILEC, interconnection with the ILEC, collocation in certain ILEC facilities, reciprocal compensation for transport and termination of traffic on the ILEC's network, and/or the purchase of retail telecommunications services at wholesale rates for resale to the CLEC's customers.

As of December 31, 1998, the IURC had received 34 requests to arbitrate interconnection agreements under the TA-96. To date, five of these agreements have been approved, and the remainder were dismissed. In addition to the arbitrated agreements, as of December 31, 1998, the IURC had approved 75 voluntarily negotiated agreements between ILECs and competitors. The IURC had approved 50 such agreements between an ILEC and a CLEC and 25 agreements between an ILEC and a cellular/wireless carrier.

It is important to note that the agreements between ILECs and CLECs only create opportunities for local competition to emerge; they do not guarantee that it will occur. To illustrate, the agreements that the IURC has approved typically contain an implementation schedule, which may call for the CLEC to begin providing service several months, or even a year or more, after the agreement is approved. Though the number and scope of these agreements are very important factors which should be considered in assessing the level of local exchange competition that may exist, they are by no means the only factors.

Access Lines

A better means of measuring actual local competition is to identify the number of access lines that CLECs are serving. As of December 31, 1998, only Indiana's three largest ILECs — Ameritech Indiana, GTE, and Sprint-United — were required to provide CLECs with access to the local exchange market, either through resale of local exchange service at wholesale rates or the sale of unbundled network elements.

The FCC's Fourth Voluntary Local Competition Survey shows that as of December 31, 1998, Ameritech Indiana resold 16,259 of its switched voice grade access lines to other carriers on a bundled resale basis [9] (Table 1). This represents approximately 0.7 percent of Ameritech Indiana's total voice-grade access lines. In contrast, the number of voice-grade access lines that Ameritech provided to CLECs in the four other Ameritech states vastly exceeded those that it provided in Indiana. Though the *number* of access lines resold to competitors is not a truly accurate measure, since Ameritech Corporation's total access lines differ by state operating company, the *percentage* of total access lines provided to CLECs on a bundled resale basis gives a fairly accurate view of CLEC market penetration. In all other Ameritech states, at least 1 percent of Ameritech's total voice-grade access lines were sold to competitive carriers, with a high of 2.75 percent in Illinois. Even in Wisconsin, where Ameritech serves approximately the same number of voice-grade access lines as in Indiana, almost 2 percent of Ameritech's voice-grade lines were purchased by competitors on a bundled resale basis.

Table 1 presents similar data for GTE and Sprint-United. As shown by Table 1, GTE sold 2,370 access lines to competitors in Indiana as of December 31, 1998. Though this figure represents only .25 percent of GTE's total voice grade access lines in the state, it is important to note that GTE lost a much greater percentage of access lines on a bundled resale basis in Indiana than in any of the other four states. Table 1 also shows that Sprint-United did not lose a single access line on a bundled resale basis in Indiana as of December 31, 1998.

Finally, Table 1 shows that while CLECs in Indiana are not reselling as many lines as in other states, the growth in the number of lines that they are providing is growing at a faster rate. As shown in Table 1, the percentage of Ameritech Indiana and GTE voice-grade access lines provided to CLECs on a bundled resale basis grew from .23 percent and less than .01 percent as of June 30, 1998 to .72 percent and .25 percent as of December 31, 1998, respectively. During the same period, the percentages of total voice-grade access lines served by CLECs were static in Illinois and Ohio, and even declined in Michigan.

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[9] The Commission report only considers switched residential and non-residential access lines provided to other telecommunications carriers as "resold lines." The Commission does not consider special access lines provided to other telecommunications carriers at a wholesale rate, since this category of access lines was not considered in the Commission's last report, and thus would make comparison between the two sets of data impossible. However, as of December 31, 1998, Ameritech Indiana provided 389 special access lines to other telecommunications carriers at a wholesale rate, whereas GTE and Sprint-United did not provide any such lines to other carriers.

In addition, this report does not consider access lines provided by an ILEC to another telecommunications carrier at a retail rate as "resold lines." (Ameritech Indiana is the only carrier that reported such lines.) Assuming that CLECs are purchasing access lines from an ILEC at retail rather than wholesale rates, considering these lines as lost to a competitor understates the ILEC's market share. The ILEC feels little competitive pressure if it provides a voice grade access line to a competitor at a retail rate, since the ILEC receives the same revenue that it would have earned had that line been sold to an end user. The Commission believes that lines lost as UNEs and through bundled resale arrangements most accurately reflect the growth of local competition.

Table 1: Bundled Resale Lines (Voice Grade Service/Voice Grade Facilities)[10]

State	Company	Through December 31, 1998			Through June 30, 1998		
		Total Voice Grade Lines	Resold Lines	Percent Resale	Total Voice Grade Lines	Resold Lines	Percent Resale
Illinois	Ameritech	7,216,875	198,354	2.75%	7,312,901	200,546	2.74%
	GTE	921,144	1,086	0.12%	887,443	42	0.00%
Indiana	Ameritech	2,255,448	16,259	0.72%	2,235,803	5,190	0.23%
	GTE	967,151	2,370	0.25%	919,704	6	0.00%
	Sprint	241,062	0	0.00%	240,286	0	0.00%
Michigan	Ameritech	5,532,499	119,779	2.17%	5,608,416	154,632	2.76%
	GTE	756,938	0	0.00%	733,060	0	0.00%
Ohio	Ameritech	4,184,826	77,879	1.86%	4,211,076	76,455	1.82%
	GTE	884,513	76	0.01%	851,924	35	0.00%
	Sprint	616,719	474	0.08%	608,453	0	0.00%
Wisconsin	Ameritech	2,207,987	42,193	1.91%	2,296,387	29,685	1.29%
	GTE	503,102	0	0.00%	484,714	12	0.00%

Another measure of CLEC market penetration is the number of UNE loops purchased by CLECs from an ILEC. As stated earlier, only Ameritech Indiana, GTE, and Sprint-United were required to provide UNEs as of December 31, 1998. According to FCC data, as of December 31, 1998, Ameritech Indiana provided 460 UNE loops to CLECs in Indiana. This is in contrast to the other four Ameritech states, in which Ameritech provided at least 5,000 such network elements. (Table 2)

GTE, in contrast, did not face facilities-based competition in any of the states except Wisconsin, where it lost 483 access lines as UNEs. Sprint-United did not face facilities-based competition in either Indiana or Ohio.

It is important to note that unlike Table 1, Table 2 does not show significant growth in the number of access lines served by CLECs between June 30, 1998 and December 31, 1998. In the case of Ameritech Indiana, the four other states continued to experience a much greater degree of facilities-based competition. GTE and Sprint-United faced little, if any, facilities-based competition.

[10] Voice-grade lines are defined by the FCC in the following manner: traditional analog "plain old telephone service" (POTS) lines, digital lines from 48 kbps through 96 kbps, Centrex-CO extensions, and Centrex-CU trunks. ISDN-Basic Rate Interface lines, fractional T-1 lines less than ¼ circuit, and digital circuits between 96 kbps and 380 kbps are counted as two voice grade lines. This report only counts voice-grade circuits, because these are the basic access lines that serve most business and residential customers; high-capacity lines, such as xDSL lines and optical carrier lines, traditionally have been deployed to business customers only.

Table 2: UNE Loops (Voice Grade Service/Voice Grade Facilities)

State	Company	Through December 31, 1998			Through June 30, 1998		
		Total Voice Grade Lines	UNE Loops	Percent UNE Loops	Total Voice Grade Lines	UNE Loops	Percent UNE Loops
Illinois	Ameritech	7,216,875	20,469	0.28%	7,312,901	14,058	0.19%
	GTE	921,144	0	0.00%	887,443	0	0.00%
Indiana	Ameritech	2,255,448	460	0.02%	2,235,803	0	0.00%
	GTE	967,151	0	0.00%	919,704	0	0.00%
	Sprint	241,062	0	0.00%	240,286	0	0.00%
Michigan	Ameritech	5,532,499	47,808	0.86%	5,608,416	38,163	0.68%
	GTE	756,938	0	0.00%	733,060	0	0.00%
Ohio	Ameritech	4,184,826	23,769	0.57%	4,211,076	15,610	0.37%
	GTE	884,513	0	0.00%	851,924	0	0.00%
	Sprint	616,719	0	0.00%	608,453	0	0.00%
Wisconsin	Ameritech	2,207,987	7,053	0.32%	2,296,387	1,130	0.05%
	GTE	503,102	483	0.10%	484,714	294	0.06%

The next measure to consider is the class of end users served by CLECs. Many in the telecommunications industry expect that competition will first develop in the market for business customers, since these end users often purchase a greater number of services and a greater degree of capacity than residential customers.

Table 3 presents data from FCC surveys that show the type of customers served by CLECs through bundled resale arrangements as of December 31, 1998.[11] According to this data, more than 70 percent of the end users in Ameritech Indiana's territory that purchased local exchange service from a CLEC were business customers. In all Ameritech states except Michigan, more business customers than residential customers were served by CLECs through the resale of Ameritech's service.

The same trend can be observed for CLECs serving customers in GTE's Indiana service area. As shown in Table 3, more than 80 percent of the customers located within GTE's service area who were served by a CLEC were business customers. In Ohio and Illinois, the results are even more extreme: all of the customers receiving service through the resale of GTE's local exchange service were business customers. Sprint-United, of course, did not lose any access lines to CLECs on a bundled resale basis in Indiana as of December 31, 1998.

[11] The FCC did not collect data regarding the type of customers (either residential or business) served by CLECs through the provision of service across a UNE loop purchased from an ILEC.

Table 3: CLEC Customers Served by Resold ILEC Switched Lines as of December 31, 1998 (Voice-Grade Only)

State	Company	Total Voice Grade Lines	Residential Customers	Non-Residential Customers	Total Resale Lines	Percent Residential	Percent Other
Illinois	Ameritech	7,216,875	83,881	112,300	196,181	42.76%	57.24%
	GTE	921,144	0	1,086	1,086	0.00%	100.00%
Indiana	Ameritech	2,255,448	4,836	11,025	15,861	30.49%	69.51%
	GTE	967,151	441	1,929	2,370	18.61%	81.39%
	Sprint	241,062	0	0	0	0.00%	0.00%
Michigan	Ameritech	5,532,499	79,483	39,325	118,808	66.90%	33.10%
	GTE	756,938	0	0	0	0.00%	0.00%
Ohio	Ameritech	4,184,826	5,615	71,407	77,022	7.29%	92.71%
	GTE	884,513	0	76	76	0.00%	100.00%
	Sprint	616,719	83	391	474	17.51%	82.49%
Wisconsin	Ameritech	2,207,987	5,624	36,336	41,960	13.40%	86.60%
	GTE	503,102	0	0	0	0.00%	0.00%

Another means of measuring the scope of competition is to examine the number of switching centers where CLECs have collocation arrangements with an ILEC. Collocation allows a CLEC to place its equipment in the ILEC's central office. TA-96 requires ILECs to open up their networks to competitors. According to section 251(c)(6) of the Act, if a CLEC would like to collocate, or place its equipment in an ILEC facility such as a central office, then the ILEC must allow this, with some restrictions. For example, a CLEC might decide to purchase existing customer loops from an ILEC as unbundled network elements, and then connect these loops to the CLEC's own switch, which would be collocated in the ILEC's central office. As such, an examination of the number of access lines served by Ameritech Indiana, GTE, and Sprint-United central offices in which at least one competitor has an agreement to collocate shows thepotential for facilities-based competition to emerge in the market for local exchange service.

Table 4 shows the percentage of voice-grade access lines served by a central office where at least one competitor had a collocation arrangement, by customer class. As of December 31, 1998, approximately 41 percent of Ameritech Indiana residential customers and 57 percent of Ameritech Indiana business customers were served by a central office in which a competitor was present. These results are smaller than those shown for the other Ameritech states for the same period, which range from 50-90 percent for residential customers and 60-80 percent for business customers, and continues the trend shown by earlier data.

Very few access lines, either business or residential, were served by a GTE or Sprint-United central office in which a CLEC had a collocation arrangement as of December 31, 1998. However, while the percentages were small across all the states, much greater percentages of GTE's Indiana residential and

business customers were served by a central office in which a competitor had a presence than GTE customers in the other four states examined.

Table 4: Percentage of ILEC Lines Serves by Switching Centers Where New Entrants Have Collocation Arrangements (Voice-Grade Access Lines)

		Through December 31, 1998			Through June 30, 1998		
State	Company	Total Voice Grade Lines	Residential Lines	Non-Residential Lines	Total Voice Grade Lines	Residential Lines	Non-Residential Lines
Illinois	Ameritech	7,216,875	70.59%	83.17%	7,312,901	48.19%	66.22%
	GTE	921,144	4.74%	7.56%	887,443	2.97%	4.75%
Indiana	Ameritech	2,255,448	41.15%	57.04%	2,235,803	20.23%	36.67%
	GTE	967,151	17.16%	27.19%	919,704	0.00%	0.00%
	Sprint	241,062	0.00%	0.00%	240,286	0.00%	0.00%
Michigan	Ameritech	5,532,499	49.43%	63.05%	5,608,416	44.03%	59.60%
	GTE	756,938	0.00%	0.00%	733,060	0.00%	0.00%
Ohio	Ameritech	4,184,826	49.81%	65.95%	4,211,076	41.21%	59.76%
	GTE	884,513	1.57%	3.54%	851,924	0.00%	0.00%
	Sprint	616,719	3.29%	4.50%	0	0.00%	0.00%
Wisconsin	Ameritech	2,207,987	87.69%	83.35%	2,296,387	39.81%	50.13%
	GTE	503,102	2.06%	2.93%	484,714	0.15%	0.81%

In addition to reviewing data collected by the FCC, the IURC sent out its own data requests in September 1998 and February 1999 to all certified CLECs[12] and the state's three largest ILECs to gauge the growth of local competition in Indiana. This information is presented in Tables 5 and 6.

Table 5 compares the market share earned by CLECs in Indiana—as measured by the number of access lines provided to end users—to the market shares earned by Ameritech Indiana, GTE, and Sprint-United. As of December 31, 1998, CLECs served a very small segment of the market for local exchange service, or approximately 1 percent of the total access lines shown in Table 5. However, CLEC market share increased in both the business and the residential markets, as compared to similar statistics collected through June 30, 1998.

[12] The Commission received data through June 30, 1998 from 76 of the 85 CLECs surveyed, for a response rate of approximately 90 percent. The Commission also received data through December 31, 1998 from 82 of the 88 CLECs surveyed, for a response rate of approximately 93 percent. CLECs that did not respond to the Commission's request for data through December 31, 1998 are: Access Network Services, Inc; Intermedia Communications, Inc.; KMC Telecom II, Inc.; MiComm Services, Inc.; NOS Communications, Inc.; and SIGECOM, LLC.

Table 5: Voice Grade Access Lines Provided to End-Users[13]

	Through December 31, 1998			Through June 30, 1998		
Carrier	Residential	Non- Residential	Total	Residential	Non-Residential	Total
Ameritech Indiana	1,430,150	777,403	2,207,553	1,404,590	810,795	2,215,385
	61.99%	68.56%	64.15%	61.88%	70.60%	64.81%
GTE North Inc.	688,774	268,151	956,925	680,127	258,702	938,829
	29.85%	23.65%	27.81%	29.96%	22.53%	27.46%
Sprint-United	182,933	57,628	240,561	182,805	57,481	240,286
	7.93%	5.08%	6.99%	8.05%	5.01%	7.03%
CLECs	5,281	30,648	35,929	2,432	21,480	23,912
	0.23%	2.70%	1.04%	0.11%	1.87%	0.70%
Total	2,307,138	1,133,830	3,440,968	2,269,954	1,148,458	3,418,412

Table 6 also examines CLEC market share by comparing local service revenue and intrastate access revenue earned by Indiana CLECs against revenue earned by Indiana's three largest ILECs.[14] As shown by Table 6, CLEC revenues constituted almost 2 percent of total revenues as of December 31, 1998. Even though this constitutes a very small share of the market, it is a growing share. Indeed, Table 6 also shows that as of June 30, 1998, local service and intrastate access revenues earned by CLECs equaled less than one-half of one percent of total revenues earned by Indiana's operating CLECs and three largest ILECs.

Table 6: Local Service and Intrastate Access Revenue

	Jan. 1-Dec. 31 1998				Jan. 1-Jun. 30, 1998			
Carrier Type	No. Providers	Local Service Revenue	Intrastate Access Revenue [15]	Total Revenue	No. Providers	Local Service Revenue	Intrastate Access Revenue	Total Revenue
CLEC	88	$6,734,476	$12,165,664	$18,900,140	85	$1,295,764	$220,573	$1,516,337
		0.86%	5.69%	1.89%		0.30%	0.25%	0.29%
ILEC	3	$780,273,089	$201,828,889	$982,101,978	3	$436,215,823	$87,820,788	$524,036,611
		99.14%	94.31%	98.11%		99.70%	99.75%	99.71%
TOTAL	91	$787,007,565	$213,994,553	$1,001,002,118	88	$437,511,587	$88,041,361	$525,552,948

[13] This table presents lines used by a carrier to provide switched local exchange service to an end user, with the service in question billed by the carrier providing service. Therefore, only lines across which an ILEC provides service and bills for that same service are included in this table; the data does not count lines such as unbundled network elements or total service resale to competitive carriers. In contrast, the CLEC results present lines used by competitive carriers to provide service, whether a line is owned by the CLEC or purchased as an unbundled network element or through a total service resale arrangement.

[14] The Commission lists revenues for Ameritech Indiana, GTE, and Sprint-United, since these three carriers serve more than 95 percent of the access lines in the State of Indiana. It is important to note that two CLECs which reported that they served access lines in Indiana as of December 31, 1998 (Table 5) did not report any revenues for the same period (Table 6). As such, Table 6 most likely underestimates the revenue earned by CLECs as of December 31, 1998.

[15] May include intrastate switched access, special access, and end-user charge revenues.

To summarize the data presented in the preceding sections:

- Tables 1-4 show that Ameritech faces a much smaller threat of local competition in Indiana than it does in Illinois, Michigan, Ohio and Wisconsin. More specifically, Ameritech Indiana has lost far fewer access lines to competitive carriers in Indiana, either on a total resale or facilities basis, than it has in other Midwestern states.

- Furthermore, the IURC expects the advent of facilities-based competition for local telephone service to grow at a slower rate in Ameritech Indiana's territory than in the other four states, since much smaller percentages of access lines were served by a central office in which a competitor has a collocation agreement as of December 31, 1998. (Table 4)

- GTE, in contrast, appears to face equal, if not greater, competition in Indiana than in neighboring states. Table 1 shows that GTE has lost a greater percentage of its total voice-grade access lines to CLECs on bundled resale basis in Indiana than in Illinois, Michigan, Ohio and Wisconsin.

- Also, while GTE did not lose any access lines as UNE loops, as of December 31, 1998, CLECs had collocated equipment in Indiana central offices serving a greater percentage of GTE's total voice grade access lines than in any of the other four states. Thus, the potential for facilities-based competition—which many believe is the truest, most lasting form of competition—seems greater in GTE's Indiana service area than in neighboring states.

- CLECs continue to have a very small share of the local telephone market, as measured by both the number of access lines served by CLECs (Table 5) and the local service and intrastate access revenues earned by CLECs in Indiana. (Table 6) However, CLEC market share appears to be growing, albeit slowly.

Several factors could have an impact on the development of competition for local exchange telecommunications services in a state. These factors include, but are not limited to: state and local law; the market shares and business practices of incumbent local exchange carriers; CLEC business plans; the policies and procedures of the state regulatory commission; and the demographic and economic characteristics of the state.

While it is beyond the scope of this report to examine all of these factors, the Commission did examine demographic and economic factors that could explain why competition has been slower to develop in Indiana than in surrounding states.

As with any business, a telecommunications carrier will seek to locate in an area where there is demand for the services it will offer. One indicator of demand for telephone service is household income. The FCC, in fact, has found that this demographic factor has a significant, positive impact on telephone penetration rates (i.e., higher income leads to greater telephone subscribership).[16] According to data from the U.S. Bureau of the Census, Indiana ranks the lowest nationally (28) among the five Ameritech region states in terms of median household income. Wisconsin, in contrast, is ranked the highest (5), with the other states falling somewhere in between.

A carrier also will seek to provide service in an area where it is cost-effective to do so. Some indicators of cost-effectiveness include population, population density, and urban versus rural population distribution. Switches, for example, come in standard sizes (e.g., one switch can serve 10,000 lines). If a competitive carrier that seeks to provide service through its own switch locates that switch in a rural area and can only serve a maximum of 5,000 customers, then there is a great deal of excess capacity in that switch. The telecommunications carrier may have to either recover the cost of this excess capacity through higher rates averaged across all customers or pass it on to its shareholders. Furthermore, one of the largest costs of proving local telephone service is the expense of the local loop, or the access line that travels from a customer's premise to the central office. Since end users living in rural areas are more geographically dispersed and live farther, on average, from a central office, loops are much longer and thus may be more expensive to provide and serve. In summary, a competitive carrier most likely will try to maximize its profit by serving end users located in large, metropolitan areas.

Table 7 shows total population, population density, and the percentage of population living in metropolitan areas for each of the five Ameritech states.[17] According to Table 7, Illinois, Michigan and Ohio all have much greater total populations, population densities, and percentages of their population living in metropolitan areas than Indiana and Wisconsin. Illinois ranks the highest on all of these factors, and Wisconsin ranks the lowest. These results seem to support the generally held belief that more populous, urbanized states will experience a greater degree of local competition than less populous, rural states; indeed, the market data and analysis section of this paper showed that CLECs operating in Illinois, Michigan and Ohio have gained much larger shares of the market for local telephone service than CLECs in Indiana and Wisconsin.

[16] "Telephone Subscribership in the United States." Industry Analysis Division, Common Carrier Bureau of the Federal Communications Commission. Released February 11, 1999. This report showed that in November 1998, the national telephone subscribership penetration rate was 78.3 percent for households with annual incomes below $5,000, while the rate for households with incomes over $75,000 was 99 percent. The overall penetration rates for each of the Ameritech states are as follows: Illinois (92.7%), Indiana (94.4%), Michigan (95%), Ohio (95.6%) and Wisconsin (95.9%)

[17] Data provided by the U.S. Bureau of the Census.

Table 7: Population, Density and Distribution

	Population (1997)		Persons per Sq. Mi. of Land Area (1997)		Population Living in Metropolitan Areas (1996)	
State	(thousands)	Rank	Number	Rank	%	Rank
Illinois	11,896	6	214.0	11	83.8	13
Indiana	5,864	14	163.5	16	71.7	23
Michigan	9,774	8	172.0	14	82.4	16
Ohio	11,186	7	273.2	8	81.1	18
Wisconsin	5,170	18	95.2	24	67.7	30

The presence (or lack) of major metropolitan areas also could influence a CLEC's decision to provide service in a state. Many CLECs have stated in the trade press that their business strategy involves offering service in the 10, 20, 50 or 100 largest markets in the nation as a first step. Just as it is more cost-effective for a telecommunications carrier to serve an urban area (and thus more lucrative), it is reasonable to assume that the largest metropolitan areas are the most attractive to CLECs.

Data from the U.S. Bureau of the Census showed that Ohio has the greatest number of Metropolitan Statistical Areas (12) of the five Ameritech states, followed in descending order by Indiana (11), Wisconsin (10), Illinois (9) and Michigan (7). When comparing states by the number of MSAs ranked in the top 100, Ohio leads with 6, followed by Michigan (5), Indiana (3), and Illinois and Wisconsin (2 each). Finally, and perhaps most importantly, Illinois serves as home to the nations' third largest MSA (Chicago) and Michigan serves as home to the nation's eighth largest MSA (Detroit-Ann Arbor-Flint). The presence of these two major metropolitan centers within their boundaries could explain why Illinois and Michigan have experienced a greater degree of local competition than the other three Ameritech states.

Finally, it is important to examine the relative number of access lines served by the ILECs in each state. Ameritech Indiana only serves 65 percent of the total access lines in Indiana, whereas it serves approximately 90 percent of the total state access lines in Illinois and Michigan, which also happen to be the Ameritech region states with the most local competition as of December 31, 1998. GTE, in contrast, controls approximately 27 percent of the total access lines in Indiana, versus approximately 10 to 15 percent of the total access lines in neighboring states. GTE also serves the second largest MSA in Indiana (Fort Wayne). As such, a CLEC seeking to provide service in Indiana must negotiate with two strong ILECs, not just one, which might serve as a disincentive to provide service in the state. Furthermore, the relative market shares of Ameritech Indiana and GTE might explain the differential growth in competition faced by each competitor. Competition might be growing more slowly in Ameritech Indiana territory than Ameritech's territory in other states because the number of total access lines is smaller, and thus less attractive. In contrast, GTE's Indiana territory encompasses relatively more access lines than in neighboring states, and thus might be more attractive to CLECs.

3. ENFORCEMENT

The Commission has spent much of the past three years implementing the market-opening provisions of the TA-96 and the FCC orders which further clarify how these provisions should be applied. In addition, the Commission continues to ensure that rates for telecommunications services are reasonable, and that Hoosiers have access to adequate service.

One of the major obstacles the Commission has faced, however, is that its orders are only as good as its ability to enforce them. As will be described below, the Commission has undertaken investigations, issued orders, and established rules to open once-monopoly markets for local telephone service while ensuring that until true, lasting competition develops, those customers who are served by incumbent local exchange carriers have adequate service. Unfortunately, many of the Commission's rules and orders have been largely ignored, thus leading to delays in the development of local competition and declining service quality. Without some sort of enforcement mechanism that can assess significant penalties against those telecommunications carriers that do not comply with its orders and/or the ability to order a telecommunications carrier to cease and desist from the violation or noncompliance, the Commission has virtually no means to remedy these problems on a prospective basis.

LOCAL COMPETITION

Pursuant to the TA-96, ILECs have an affirmative duty to negotiate the terms, conditions, rates and charges of interconnection with potential competitors. Once an ILEC and a CLEC reach agreement on these terms and conditions, either through voluntary negotiation or arbitration, such an interconnection agreement must be filed with the appropriate state commission for approval. The TA-96 sets forth certain procedural requirements for negotiations and arbitrations and provides standards for review and approval or rejection of the agreements.

Unfortunately, the TA-96 provides little guidance to state commissions on how to resolve inter-carrier disputes regarding the implementation of interconnection agreements, nor does it impose penalties that state commissions can assess if a carrier engages in anti-competitive behavior. While TA-96 establishes expedited statutory deadlines for a state commission to review negotiated and arbitrated interconnection agreements, it provides no timeline for resolving post-interconnection agreement disputes.

The Commission has received four formally docketed complaints (all of which involved Ameritech Indiana) regarding the implementation of approved interconnection agreements since the passage of the TA-96. This is in addition to many more informal grievances relayed to Commissioners and staff.

For example, the Commission continues to receive complaints from CLECs that are attempting to negotiate interconnection agreements with Ameritech Indiana. In several instances, despite repeated

discussions with Ameritech Indiana's legal counsel and staff, Ameritech Indiana maintained that it could unilaterally insert new language or revise existing language in a previously approved interconnection agreement when a CLEC seeks to adopt such agreement pursuant to section 252(i) of the TA-96. The Commission's Telecommunications Division staff, the General Counsel's Office, and the presiding Administrative Law Judges discussed with Ameritech Indiana numerous times that a CLEC may adopt an existing interconnection agreement by simply submitting a letter to the Commission. The only terms that must be determined are: (1) the physical point of interconnection, and (2) the date upon which Ameritech Indiana will activate service to the other party. Ameritech Indiana continued to ignore these directives, which were outlined in the Commission's Amended General Administrative Order 1998-1, for several months. As discussed in the Commission's June 16, 1999 comments to the FCC regarding the SBC/Ameritech merger[18]:

> ...Ameritech Indiana appears to have misrepresented the IURC's position on the implementation of interconnection agreements to other carriers during negotiations. For example, by using these tactics, Ameritech Indiana delayed the execution of its interconnection agreement with Golden Harbor of Indiana, Inc. for almost five months. The IURC fears that Ameritech Indiana's continued failure to abide by our orders will result in delay or denial of interconnection between Ameritech Indiana and other carriers on a prospective basis.

The Commission has experienced similar difficulties with GTE. In recent months, the Commission has rejected several sections in voluntarily negotiated interconnection agreements between GTE and other telecommunications carriers because the sections do not meet the public interest standard outlined in section 252(e)(2)(A) of TA-96[19]:

> ...the Commission is concerned about language throughout this agreement which appears to constitute an attempt by the parties to circumvent prior Commission orders, notably orders in Cause Nos. 39983, 40618, and 40785. In these proceedings, the Commission made several findings regarding how GTE is to offer its services to CLECs for resale, the manner in which GTE's costs are to be determined and subsequently recovered, and the need for intrastate universal service funding, among other things. The requirements in these orders were found to further the public interest, convenience, and necessity as well as the pro-competitive goals of TA-96. Therefore, language in this interconnection agreement, which appears to contradict the Commission's previous orders, is not in the public interest. Indeed, the parties to this agreement should be advised that this Commission does not view voluntarily negotiated interconnection agreements as an avenue to avoid implementing provisions in the Commission's previous orders with which the parties may not agree.[20]

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[18] In the Matter of Applications for Consent to the Transfer of Control of Licenses and Section 214 Authorization from Ameritech Corporation, Transfer to SBC Communications, Inc., Transferee, CC Docket No. 98-141, Comments of the Indiana Utility Regulatory Commission, June 16, 1999.

[19] Section 252(e)(2)(A) states that a only may reject a voluntarily negotiated interconnection agreement if it discriminates against a telecommunications carrier not a party to the agreement or if it is not consistent with the public interest, convenience, and necessity.

[20] Cause No. 40737 INT 27.

Even though the Commission rejected such language in interconnection agreements between GTE and three other telecommunications carriers on April 20 and April 21, 1998,[21] identical language appeared in subsequent interconnection agreements submitted to the Commission for approval.[22] The fact that GTE continues to insert language in its interconnection agreements that the Commission has previously denied does not simply create additional administrative burdens for the Commission. When the Commission does not approve language in an interconnection agreement, the parties must negotiate replacement language. In some instances, the Commission's failure to approve a specific section of the agreement requires the CLEC to withdraw the entire agreement from Commission consideration. As a result of GTE's continued insertion of such language into its interconnection agreements, CLEC market entry may be delayed.[23]

The Commission understands that these interconnection agreements are voluntarily negotiated contracts between two companies. At the same time, the market for local telephone service in Indiana is far from competitive; as of December 31, 1998, GTE controls more than 99 percent of the voice-grade access lines in its territory. Because GTE has a virtual monopoly for telephone service in its service areas,CLECs seeking to provide service in GTE's region have no alternative but to interconnect with the carrier, and thus may accept terms and conditions that do not benefit their best interests or comply with state and federal law.

Unfortunately, the Commission's existing procedural requirements provide no expedited procedure to resolve these disputes. Also, because the Commission has no means to enforce its orders or penalize carriers for anti-competitive behavior, carriers most likely will continue to ignore Commission orders to stall the development of local competition in Indiana.

In order to at least resolve these disputes more quickly, the Commission hopes to amend its administrative and regulatory procedures to establish an expedited process for resolving interconnection complaints by the end of 1999. Many other state commissions, most recently the Oregon Public Utility Commission, have found it necessary to implement similar processes. The straw man for this process will likely be largely modeled on the Texas Public Utility Commission's "Rocket Docket," contained in Texas Administrative Code Section 22.327. The Texas PUC first adopted this procedure in order to expedite, to within as few as 30 days after the filing of a formal complaint, resolution of interconnection-related disputes. The Commission believes that an expedited dispute resolution process will benefit the public interest, since quick resolution of inter-carrier disputes will ensure thatCLECs are able to provide uninterrupted service to their customers and to access services, functionalities, or network elements from the ILEC. In addition, the expedited timeline eliminates the incentive for an ILEC to disagree with the terms of the interconnection agreement simply to stall interconnection with a CLEC.

[21] Cause Nos. 40737 INT 26 through 28.

[22] Cause Nos. 40737 INT 31 and 32.

[23] If GTE felt that such language was critical to the agreement, it could petition the Commission for reconsideration of its order(s) denying such language. The Commission has not received such a petition from GTE to date.

SERVICE QUALITY

Maintaining a high quality of service is a cornerstone of utility regulation. Unfortunately, service quality data for Ameritech Indiana, the state's largest provider of local telephone service with more than 65 percent of the access lines in Indiana, shows that the carrier's quality of service has consistently declined over the past three years.[24]

According to data supplied by Ameritech Indiana to the Commission, the carrier has consistently failed to meet two important Indiana service quality standards over the past five quarters: clearing out-of-service calls within 24 hours and answering calls from business customers. In addition, data from the FCC's Automated Reporting Management Information System (ARMIS)[25] show that Ameritech Indiana had the longest out-of-service repair intervals for business customers (1997 and 1998) and residence customers (1997), the highest repeat out-of-service interval for business customers (1997 and 1998), and the longest average initial installation interval for business customers (1997) of any Ameritech operating company.

As stated above, Ameritech Indiana has consistently failed to comply with service quality standards that were developed in 1979, long before the development of much of the technology that is used today. However, without the ability to fine Ameritech Indiana (or any other telecommunications carrier that consistently fails to comply with the Commission's service quality standards), the Commission has no means to ensure that adequate telecommunications services are available to Indiana consumers. Indeed, Indiana consumers appear to be increasingly dissatisfied with the service of the state's largest local telephone company. Ameritech Indiana's customer satisfaction results, as reported by ARMIS, have declined over the past three years:

- Residential customers have grown increasingly dissatisfied with Ameritech Indiana's installation of service (3.2 percent in 1996; 4.84 percent in 1997; 6.26 percent in 1998).
- Residential customers have grown increasingly dissatisfied with Ameritech Indiana's repair service (8.1 percent in 1996; 10.13 percent in 1997; 11.7 percent in 1998).
- Residential customers have grown increasingly dissatisfied with Ameritech Indiana's business office response time (4.0 percent in 1996; 6.86 percent in 1997; 7.13 percent in 1998).

In conclusion, it is important to recognize that the Commission's orders are only as effective as the Commission's ability to enforce them. Without the ability to: 1) levy significant monetary penalties against a telecommunications carrier for non-compliance; 2) order a telecommunications carrier to cease and desist from the violation or noncompliance; 3) mandate corrective action to alleviate the violation or

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[24] As part of the interim phase of Opportunity Indiana, Ameritech Indiana is required to file various service quality reports based on the IURC's Standards of Service developed in 1979 and detailed in 170 IAC 7-1.1-11.

[25] ARMIS collects service quality data on a state-specific basis for the nation's largest local telephone companies, including Ameritech, GTE, and Sprint-United.

noncompliance; and/or 4) revoke or modify the terms of the telecommunications carrier's certificate of territorial authority, certificate of public convenience and necessity, or any other permit, Commission-promulgated rules and orders which seek to protect the public interest might be reinterpreted, ignored, or implemented only after great delay.

4. TELECOMMUNICATIONS MERGERS

Since the passage of the TA-96, a number of telecommunications providers such as MCI and AT&T have sought out and subsequently merged with other telecommunications providers. Generally, the companies have argued that mergers are needed to compete in the global telecommunications market. Below we review mergers that affect the two largest incumbent local telecommunications providers in Indiana: GTE and Ameritech Indiana.[26] From the review, we conclude that the lack of specific legal authority to review mergers between holding companies reduces the Commission's ability to act in the public interest and Indiana will derive less benefit from the transaction, or will be harmed to a greater extent, than states with such authority.

General Issues Regarding Telecommunications Mergers

As is the case with all mergers within the public utility arena, telecommunication mergers raise issues such as future authority over the merged entity, employment levels, quality of service, dollar cost savings, and allocation of dollar cost savings to end-users. These issues largely concern protecting the current customers of the telecommunications carrier(s) involved in the merger. Mergers between telecommunications carriers are not all the same, however, and the same review standards cannot be applied to every transaction regardless of the carriers involved. For example, the IURC allows resellers of WATS/intrastate, interexchange service to notify the Commission of a merger through the submission of a two-page form. This is because the market for toll resale is very competitive in Indiana, with more than 400 carriers certified to provide this type of service. Thus, if a company's service quality declines as the result of the merger, a customer has several hundred alternative carriers from which to choose.

In the case of mergers between incumbent local exchange carriers, however, the IURC must apply much more stringent review standards. Ameritech Indiana, for example, serves approximately 65 percent of the access lines in the State of Indiana. Furthermore, as of December 31, 1998, competitive local exchange carriers served less than 1 percent of Ameritech Indiana's voice-grade access lines. Therefore, the SBC/Ameritech and GTE/Bell Atlantic mergers raise many issues of concern to the IURC, since customers of these companies have no alternative provider should either company's service decline as the result of the merger.

[26] On August 11, 1999, in Cause No. 41440, the IURC approved the merger between Global Crossing , Ltd. and Frontier Corporation. Global Crossing owns a large sea cable that carries telecommunications traffic and is expanding its ground facilities. Frontier is a holding company for various small LECs nationwide, including Frontier Communications of Indiana, Inc. and Frontier Communications of Thorntown, Inc., which have a total of 5,300 access lines. They also have a long-distance subsidiary and a CLEC subsidiary. The companies agreed to keep the existing management team in place, retain the Frontier name, maintain investment in the telephone network and maintain sufficient number of employees to provide quality service to customers.

Additionally, because both Ameritech Indiana and GTE own the majority of the facilities used to provide telecommunications service in Indiana, the IURC's review of these mergers involves another very important concern: the impact of the mergers on competition, especially emerging competition for local telephone service.

MERGER BETWEEN GTE AND BELL ATLANTIC

In July 1998, GTE Corporation (GTE) and Bell Atlantic Corporation (Bell Atlantic) announced a planned merger. On October 2, 1998, the IURC was informed via letter of the planned merger and the companies filed for regulatory approval from the FCC. On November 18, 1998, in Cause No. 41332, the IURC opened an investigation into the merger. The investigation was undertaken to prepare comments for submission to the FCC and to determine whether the IURC has the authority to approve the merger. Commission staff developed specific questions for GTE and Bell Atlantic, which were supplemented by questions from intervening parties. On March 16 and 17, 1999, GTE and Bell Atlantic were questioned formally regarding the proposed merger. The IURC issued an Order on May 26, 1999 finding that the IURC does have jurisdiction to approve the merger, thereby setting in motion the second phase of the investigation, with an evidentiary hearing set for September 14-17, 1999. On July 30, 1999, the Indiana Supreme Court vacated the May 26, 1999 decision, ruling that "section 83(a) does not require Commission approval of this proposed transaction in the outstanding securities of these public utilities or their parents."[27] On August 16, 1999, GTE petitioned the IURC to vacate the remainder of the procedural schedule.

GTE/Bell Atlantic Commitments

GTE/Bell Atlantic have made no formal commitments to the IURC regarding the merger. In its filing to the FCC, GTE/Bell Atlantic has committed to entering the Indianapolis market to compete with Ameritech Indiana.

Merger Proceedings in other GTE States

GTE offers local telephone service in 28 states, but not all of the 28 states have authority to review the merger. Some of the states that have formal authority did not impose conditions on GTE contingent upon approval of the merger. However, in an ongoing proceeding in Illinois, GTE/Bell Atlantic have made the following commitments to the Illinois Commerce Commission for approval of the merger: add staff to its 911 service; participate in an industry-wide Disabilities Advisory Council; enter the Chicago market within 18 months; spend not less than $234 million in infrastructure investment over the next three years; maintain offices in Illinois, with a level of staff necessary to ensure compliance with all Commission rules, statutes,

[27] 1999 Ind. LEXIS 547 (July 30, 1999)

and orders; reduce rates by $10.3 million upon merger consummation to account for earnings and merger savings; and not increase local residential or business rates before a general rates case occurs.[28]

MERGER BETWEEN AMERITECH AND SBC

On May 11, 1998 SBC Delaware, Inc., a subsidiary of SBC Communications Inc. (SBC) and Ameritech Corporation (Ameritech) announced that SBC would acquire and merge with Ameritech. On July 24, 1998, SBC and Ameritech filed an application with the FCC seeking approval for the transfer of control from Ameritech Corporation to SBC, including Indiana Bell Telephone Company d/b/a Ameritech Indiana. On August 18, 1998, representatives of SBC, Ameritech, and Ameritech Indiana appeared at a public hearing to describe the acquisition and answer questions from the Commissioners and staff. The IURC initiated an investigation, in Cause No. 41255, into the proposed merger between Ameritech and SBC on September 2, 1998.[29] The investigation was undertaken to prepare comments for submission to the FCC and to determine whether the IURC had the authority to approve the merger. Commission staff developed specific questions for SBC/Ameritech/Ameritech Indiana, which were supplemented by questions from intervening parties. On December 1 and 2, 1998, SBC, Ameritech, and Ameritech Indiana's witnesses were questioned formally regarding the proposed merger. On May 5, 1999, IURC found that it did have jurisdiction to approve the merger, thereby setting in motion the second phase of the Commission's investigation. Shortly thereafter, SBC and Ameritech requested that the IURC negotiate a settlement. Negotiations between SBC and Ameritech, the Indiana Office of the Utility Consumer Counselor, an IURC staff testimonial team, and other interested parties began shortly thereafter. The IURC proceeded with Cause No. 41255, and held evidentiary hearings July 19-23, 1999. On July 30, 1999, the Indiana Supreme Court vacated the May 5th decision, ruling that "section 83(a) does not confer Commission jurisdiction over transactions in the outstanding securities of a public utility or its parent."[30] Although the IURC no longer has jurisdiction to approve or disapprove the merger, the IURC will conclude the investigation with a Commission Order and may send final comments to the FCC.[31]

SBC/Ameritech/Ameritech Indiana's Commitments

Although the merits of each issue in a merger are important, the focus in this report will be on specific commitments made to Indiana prior to the IURC asserting jurisdiction over the proposed SBC/Ameritech merger, commitments made to Indiana after the Commission asserted jurisdiction, and

[28] Joint Application for the Approval of a Corporate Reorganization Involving a Merger of GTE Corporation and Bell Atlantic Corporation, Proposed Order of GTE Corporation and Bell Atlantic Corporation, 98-0866, August 16, 1999.

[29] In the Matter of the Investigation on the Commission's Own Motion into All Matters Relating to the Merger of Ameritech Corporation and SBC Communications, Inc., Cause No. 41255.

[30] 1999 Ind. LEXIS 548 (July 30, 1999).

[31] The IURC filed comments with the FCC regarding the proposed merger on June 16, 1999 and July 16, 1999. The last set of comments focused on the Proposed Conditions developed by FCC Staff and SBC/Ameritech as part of the FCC's review of the transaction.

commitments made to Indiana after the Indiana State Supreme Court declared that the IURC does not have jurisdiction to approve the transaction.

Soon after the merger was announced, SBC made a number of commitments to Ameritech, which, it believed, would benefit Indiana ratepayers and the State of Indiana. These commitments are:

1. Maintain Ameritech's state headquarters in Indiana;
2. Continue to use Ameritech's name in Indiana;
3. Continue Ameritech's historic level of charitable contributions and community activities;
4. Continue to support economic development and education in Ameritech's region;
5. Ensure that, as a result of the merger, employment levels in the five-state Ameritech region will not be reduced due to the merger; and,
6. Continue to invest capital necessary to support Ameritech's network in accordance with past practices.[32]

After the IURC asserted jurisdiction, in rebuttal testimony filed on June 25, 1999, SBC/Ameritech/Ameritech Indiana's proposed a set of additional Voluntary Commitments. SBC/Ameritech/Ameritech Indiana argued that these commitments satisfied the public interest concerns of the IURC and intervening parties in the proceeding. These Voluntary Commitments were modeled after the settlement reached by the Public Utilities Commission of Ohio (PUCO) Staff and SBC/Ameritech Ohio, which were subsequently approved by the PUCO.[33] The commitments include:

- Ameritech Indiana will maintain a state headquarters in Indiana that is staffed sufficiently to at least maintain Indiana's local presence with government entities and community organizations for no less than five years.
- Ameritech Indiana will establish a collaborative process to improve Operational Support Systems--the general framework for how a CLEC orders, provisions, and is billed for service from Ameritech Indiana. Furthermore, they will implement 79 of 122 performance standards and related benchmarks developed from a Texas Public Utilities Commission proceeding and will be subject to up to $11 million in penalties, paid to CLECs, for failure to meet the measurements.
- Ameritech Indiana will make the following commitments to improve the telecommunications infrastructure: continue broadband digital switching and transport consistent with Opportunity Indiana; continue to support the Corporation for Educational Communications at a level of $5 million

[32] May 10, 1998 letter from Edward E. Whiticare Jr., Chairman and Chief Executive Officer of SBC to Richard C. Notebaert, Chairman of the Board, President and Chief Executive Officer of Ameritech.

[33] In the Matter of the Joint Application of SBC Communications Inc., SBC Delaware Inc., Ameritech Corporation, and Ameritech Ohio for Consent and Approval of a Change of Control, Case No. 98-1082-TP-AMT, April 8, 1999.

per year until June 30, 2000; make ISDN available to customers in every Ameritech Indiana central office by December 31, 2002; deploy five new SONET rings by December 31, 2002; upgrade all remaining analog central offices to digital by December 31, 2006; deploy ADSL to residential customers in a non-discriminatory fashion once it is offered to residential customers in Indiana; and implement SBC's Universal Design Policy for people with disabilities.

- For three years after the Merger Closing Date, Ameritech Indiana will make capital investments of $578 million over-and-above any future investment commitments contained in a prior alternative regulation plan or infrastructure commitments elsewhere in the agreement.
- At the end of two years following the Merger Closing Date, the number of full-time equivalent employees of Ameritech Indiana will be more that the greater of: 1) the number of such employees as of the date this Commission approves the Merger, or 2) the number of such employees as of the Merger Closing Date.
- Ameritech Indiana will be subject to a penalty of up to $10 million per year for three years if certain service quality measurements contained in the Indiana Administrative Code or a future Commission order are missed.
- Ameritech Indiana will offer discounts for UNE loops used for residential service of 15 percent for a specific number of UNE loops.
- Ameritech Indiana will offer varying discounts from the current wholesale discount for resold services over a specific time frame.
- Ameritech Indiana will pay penalties of up to $11 million if it does not lose a specified number of access lines lost to competitors over the next three years.
- Ameritech Indiana will offer promotional discounts for collocation.
- Ameritech Indiana will offer CLECs an option for the payment of non-recurring charges on an 18-month installment plan.
- Ameritech Indiana will waive the Bona Fide Request initial processing fee submitted by a CLEC for three years.
- Ameritech Indiana will implement a 10-digit trigger for local number portability in Indianapolis by April 1, 2000 and July 1, 2000 in other Ameritech Indiana central offices.
- Ameritech Indiana will reduce by 10 percent the average time elapsed between the date a request is made by a CLEC to review pole attachments and conduit records and the date such records become accessible.
- Ameritech Indiana will offer CLECs the ability to opt into voluntarily negotiated interconnection agreements from other states given certain conditions.
- Ameritech Indiana will offer CLECs the same interconnection arrangements that a CLEC affiliate of SBC/Ameritech negotiates where it is technically feasible and subject to provisions of TA-96.

- Ameritech Indiana will implement an Alternative Dispute Resolution process to resolve conflicts with CLECs.
- Ameritech Indiana will pay a $4 million credit, as directed by the Commission, reflecting merger-related cost savings.
- Ameritech Indiana will undertake additional reporting requirements to demonstrate its compliance with the Voluntary Commitments.

On August 9, 1999, in Cause No. 41255, SBC/Ameritech/Ameritech Indiana advised the Commission that the Voluntary Commitments offered on June 25, 1999 were withdrawn due to the Indiana Supreme Court ruling. However, SBC/Ameritech reiterated that the six original commitments are still available, as well as recent Proposed Conditions developed by FCC Staff and SBC/Ameritech during the FCC's review of the merger.

Analysis

The majority of the parties to this proceeding, including the Indiana Office of the Utility Consumer Counselor, IURC Testimonial Staff, Residential Customers, AT&T, Sprint-United, and Time Warner recommended that the IURC not approve the merger on a variety of grounds, most of which fall into two categories: 1) the merger will provide little benefit, and more likely will harm, the existing customers of Ameritech Indiana; and 2) the merger will not promote, and in fact is more likely to stifle, the development of competition for local telephone service in the State of Indiana.

The IURC has not yet issued an order that explains its specific findings from the merger investigation or provides a recommendation to the FCC regarding whether the merger should be approved, and if so, whether and what conditions should be applied. However, the IURC has filed two sets of comments with the FCC. The IURC's initial comments, filed on June 16, 1999, provided the FCC with an assessment of the current state of affairs in Indiana, independent of the proposed SBC/Ameritech merger. The goal of these comments was to inform the FCC's review at the federal level. Because the IURC could not conjecture about the impact that the proposed merger, if consummated, would have, the IURC provided an analysis of Ameritech Indiana's past and current performance. In its comments, the IURC made these observations:

- Ameritech Indiana has opposed several of the IURC's orders over the past five years, notably the provisions of its alternative regulation plan, intrastate universal service proceedings, and implementation of sections 251 and 252 of the Telecommunications Act of 1996. This has resulted in a $62 million under-investment in telecommunications infrastructure for schools, hospitals, and government centers and has stalled the development of competition for local telephone service, among other things.
- As of December 31, 1998, there was virtually no competition for local telephone service in the State of Indiana. Particularly disturbing is the fact that Ameritech Indiana had lost less than 500 voice

grade access lines as unbundled network elements (UNEs) and has recently raised prices for services such as enhanced calling features.

- The lack of effective facilities-based competition for local telephone service also could explain Ameritech Indiana's failure to deploy broadband capability that provide end users fast Internet access. As of December 31, 1998, Ameritech Indiana had deployed one xDSL line in its entire service area. Since Ameritech Indiana serves 2.2 million (65 percent) of Indiana's 3.4 million access lines, the IURC is concerned that there might be little, if any, broadband deployment in our state.
- Ameritech Indiana has consistently failed to meet two important Indiana service quality standards over the past five quarters: clearing out-of-service calls within 24 hours and answering calls from customers to its customer service centers. In addition, the FCC's own ARMIS data show that Ameritech Indiana had the longest out-of-service repair intervals for business customers (1997 and 1998) and residence customers (1997), the highest repeat out-of-service interval for business customers (1997 and 1998), and the longest average initial installation interval for business customers (1997) of any Ameritech operating company.

It is important to note that the Voluntary Conditions submitted by SBC/Ameritech to the IURC on June 25, 1999 responded to three of the four concerns listed above (local competition, broadband deployment, and service quality). However, the IURC never had the opportunity to consider whether these Voluntary Conditions ameliorated the concerns outlined in its comments to the FCC because they were subsequently withdrawn on August 9, 1999. The State of Indiana has been left with the original six merger commitments that it faced when the IURC filed its initial comments with the FCC. The IURC's assessment of these remaining six conditions can be summarized from the following section of our initial FCC comments:

> The IURC believes that an independent Ameritech Indiana needs to undertake steps to improve its quality of service, meet required infrastructure investments, comply with IURC orders, remove barriers to local competition, and expedite the deployment of broadband services. The IURC does not abdicate responsibility for addressing these issues; indeed, the IURC has several proceedings before us in which we are seeking to resolve these matters.
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> However, the IURC believes that it is critical for the FCC to understand the current state of affairs in each of the five Ameritech states in order to consider any future impacts of the proposed merger. This is particularly true since, as stated above, SBC proposes to maintain the status quo in Indiana. Hence, **we are concerned that all we can expect is more substandard service quality, opposition to IURC orders, insignificant local competition, and no deployment of broadband services.**[34] [emphasis added.]

[34] In the Matter of Applications for Consent to the Transfer of Control of Licenses and Section 214 Authorization from Ameritech Corporation, Transferor to SBC Communications, Inc., Transferee, CC Docket No. 98-141, Joint Reply of SBC Communications Inc. and Ameritech Corporation to Comments Regarding Merger Conditions, July 26, 1999.

As stated on June 16, the IURC does not believe that SBC/Ameritech's remaining six commitments will ameliorate its concerns about local competition, compliance with IURC regulation, broadband deployment, and service quality on a prospective basis. Indeed, comparing the commitments made by SBC/Ameritech/Ameritech Indiana: 1) prior to the IURC's assertion of jurisdiction, 2) after the IURC asserted jurisdiction, and 3) after the State Supreme Court vacated its jurisdictional order, it is clear that the State of Indiana would have benefited from a law authorizing the Commission to approve or disapprove this merger, since SBC/Ameritech is more willing to address the concerns of a Commission that has the authority to review its proposed merger than one which does not.

Federal Merger Conditions

While the IURC has been engaged in its own review of the proposed SBC/Ameritech merger, FCC staff have been working with the two companies to negotiate a set of federal merger conditions that would ameliorate the FCC's concerns about the impact of the merger. On July 1, 1999, SBC/Ameritech submitted a set of proposed merger conditions for their pending application to transfer control to the FCC, which the FCC publicly released for comment. On July 16, 1999 the IURC filed additional comments with the FCC regarding the proposed merger conditions.

Although the IURC commended the FCC for undertaking the dialogue with SBC and Ameritech that resulted in this comprehensive settlement, the IURC's comments expressed a fundamental concern about the implementation of the merger conditions: Indiana most likely will not derive as much benefit from these conditions as other states within and without the SBC and Ameritech regions, for the reasons provided below:

- Many of the conditions are applied at a later date in Indiana than in other states, or are not applied at all.
- Indiana may be less attractive to competitive carriers than many other SBC/Ameritech states, as evidenced by the slow growth of local competition in our state.[35] CLECs, facing limited resources, might choose to utilize the promotional offerings provided by these conditions in larger, more lucrative states (e.g., California, Texas, Illinois) before Indiana. For example, CLECs might expend the maximum number of discounted residential UNE loops in California within one year of the Merger Closing Date, whereas the discount might expire before CLECs in Indiana are able to utilize the maximum number of eligible loops.

[35] SBC/Ameritech concurs with the IURC's analysis that Indiana is less attractive to CLECs than many other states. "The most likely explanation for CLECs' current market shares in Indiana has to do with the decisions of competitors to pursue larger markets, such as Chicago and Detroit, because they present a larger revenue target." See Cause No. 41255, In the Matter of the Investigation on the Commission's Own Motion into All Matters Relating to the Merger of Ameritech Corporation and SBC Communications, Inc., Respondents' Submission of Proposed Order and Supplemental Brief, August 9, 1999.

- Indiana faces little facilities-based competition for voice grade local telephone service, let alone advanced telecommunications such as broadband capability. Faced with little competitive pressure and no requirement to deploy broadband access pursuant to these merger conditions, SBC/Ameritech has little incentive to provide ubiquitous deployment of this capability in Indiana now or in the near future.

- Indiana will play a small role in the 13-state SBC/Ameritech region. Investments to improve Ameritech Indiana's service quality, which the IURC described as unsatisfactory in our June 16, 1999 comments to the FCC, most likely will be made in larger states where SBC/Ameritech faces significant local competition before smaller states such as Indiana. In the June 16 comments the IURC stated:

- Although some of the proposed FCC merger conditions match the Voluntary Commitments presented to the IURC, Indiana ratepayers will not benefit from penalties for poor service quality, a $4 million rate rebate, commitments made to competitors to open monopoly markets and infrastructure guarantees of $578 million. All of these commitments, which are not included in the proposed FCC merger conditions, clearly benefit the public interest.

The IURC's concern that the State of Indiana will not benefit as much from the proposed merger, or worse yet, will be harmed to a greater degree than other states, should not be a factor that the FCC considers in its review of the transaction, according to SBC/Ameritech. In reply comments filed with the FCC on July 26, 1999, SBC/Ameritech stated the following:

> Moreover, the test for approving the merger is whether the license transfer is in the public interest. That test is satisfied if the benefits of the merger outweigh any alleged harms. (footnote omitted) As discussed above, the merger brings a multitude of consumer and competitive benefits to markets throughout the country, including Indiana. **Indiana's real concern, which is that it "might not derive as much benefit from these Conditions as other states" (footnote omitted), is not relevant to this Commission's [FCC] review because consumers and CLECs in Indiana and elsewhere will be better off as a result of the merger and the Conditions, including implementation of the FPPP [Federal Performance Parity Plan].**[36] [emphasis added.]

SBC/Ameritech adopted the same position in a brief submitted to the IURC in Cause No. 41255 on August 9, 1999. In such comments, SBC/Ameritech appears to discount the Commission's concern that the citizens of the State of Indiana deserve the same level of merger benefits, or in the very least, the same protections from any negative outcomes that the merger could impose, as citizens of other SBC/Ameritech states.

[36] In the Matter of Applications for Consent to the Transfer of Control of Licenses and Section 214 Authorization from Ameritech Corporation, Transferor to SBC Communications, Inc., Transferee, CC Docket No. 98-141, Comments of the Indiana Utility Regulatory Commission, June 16, 1999.

Merger Proceedings In Other SBC States

As part of its review of the proposed SBC/Ameritech merger in Cause No. 41255, the IURC reviewed proceedings involving SBC in other states. Overviews of some of these proceedings are provided below. In addition, the IURC examined statutes from other states that provide state regulatory bodies the authority to review mergers at the holding company level as well as the decision-making criteria that the state commission is to use when determining whether the merger should be approved.

- Connecticut — Prior to the proposed merger with Ameritech, SBC merged with Southern New England Telephone (SNET) and Pacific Telesis. As part of the merger with SNET, SBC committed to keeping the operating headquarters and service centers of the public service companies in their current locations.[37] SBC also committed to maintain or increase SNET's historic level of charitable contributions consistent with both companies' focus on education, economic development, and health and human services. Although the Connecticut Department of Public Utility Control (CDUC) did not order rate reductions as a condition of the merger, the CDUC will monitor the cost savings and general financial condition of SNET. If warranted, the CDUC will reopen SNET's Alternative Regulatory Plan and consider the effects of the merger.

- California — In an order issued on March 31, 1997,[38] the California Public Utilities Commission (CPUC) determined that the net present value of total savings to be allocated between shareholders and ratepayers as a result of the SBC/Pacific Telesis merger was almost $500 million, and determined that the ratepayers' share should be 50 percent, or almost $250 million dollars. California law required that the CPUC allocate "no less than 50 percent" of economic benefits of the merger to ratepayers. The California Public Utilities Commission subsequently ordered Pacific Telesis to reduce the rates of each customer over a five-year period (1998 through 2002) in order to achieve a full annual savings of $226.6 million dollars in 2002.

- Ohio — In the five-state Ameritech region only Illinois and Ohio have clear statutory authority to review mergers at the holding-company level. In Ohio, based on negotiation between the Ohio Staff and SBC/Ameritech, the Public Utilities Commission of Ohio (PUCO) issued an order on a stipulated settlement with the companies that imposes several conditions on the merger.[39] These conditions largely mirrored the Voluntary Commitments that SBC/Ameritech/Ameritech Indiana offered the IURC in their rebuttal testimony in Cause No. 41255 on June 25, 1999.

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[37] Joint Application of SBC Communications Inc. and Southern New England Telecommunications Corp for a Change in Control, Docket No. 98-02-20, September 2, 1998.

[38] California Public Utilities Commission, Order 177 P.U.R. 4th 462.

[39] In the Matter of the Joint Application of SBC Communications Inc., SBC Delaware Inc., Ameritech Corporation, and Ameritech Ohio for Consent and Approval of a Change of Control, Case No. 98-1082-TP-AMT, April 8, 1999.

- Illinois — The Illinois Commerce Commission also is engaged in an investigation to determine whether the merger should be approved, and if so, whether similar conditions should be applied to it in Illinois. Again, as was the case in Indiana, SBC/Ameritech offered the Illinois Commerce Commission voluntary commitments that largely mirrored those approved by the Public Utilities Commission of Ohio. On August 10, 1999, the Illinois hearing examiners circulated a proposed order in this proceeding, which among other things would require that 50 percent of the net merger-related savings allocable to Illinois will be allocated to the merged company's customers.[40]

Conclusion

In the Indiana Supreme Court's July 30, 1999 Opinion, the court said, "It may be well that it is more efficient or effective in protecting the interests of the citizens of our state for the Commission to have power to disapprove a shift in control of a utility."[41] By the review of the two mergers above, it is undeniable that if the IURC had jurisdiction to approve these transactions, it could be more effective in protecting the public interest. In the case of SBC/Ameritech merger, the Voluntary Commitments, which SBC/Ameritech/Ameritech Indiana withdrew after the Indiana Supreme Court declared that the IURC lacks jurisdiction to examine mergers between holding companies, addressed some of the concerns that the IURC had expressed in its June 16 comments to the FCC.

Instead, the State of Indiana must rely on the federal government to protect the interests of the citizens of the State of Indiana. As noted in the IURC's July 16 comments to the FCC, beyond specific, technical and legal criticisms of the proposed merger conditions, theIURC's fundamental concern is that the State of Indiana will not benefit as much, or will be harmed to a greater extent, than states with the means to develop their own merger conditions, such as Illinois and Ohio. Indeed, SBC/Ameritech's submission of Indiana-specific voluntary commitments—including penalties for poor service quality, a $4 million rate rebate, commitments made to competitors to open monopoly markets, and infrastructure guarantees of $578 million—and subsequent retraction of these commitments after the July 30 Indiana Supreme Court decision suggests that Indiana citizens will be worse off than citizens of other states like Ohio, California, and Illinois as a result of this and future mergers. It is clearly evident from comparing states with jurisdiction over mergers involving holding companies and states without jurisdiction that Indiana has lost an opportunity to enhance the general public interest. The states that can assert jurisdiction will serve as better competitive arenas for telecommunications providers, will enjoy an improved telecommunications infrastructure, and their citizens will receive some of the flow through of cost savings resulting from a merger.

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[40] Joint Application for approval of the reorganization of Illinois Bell Telephone Company d/b/a Ameritech Illinois, and the reorganization of Ameritech Illinois Metro, Inc. in accordance with Section 7-204 of the Public Utilities Act and all other appropriate relief, Hearing Examiners' Proposed Order on Reopening, 98-0555, August 10, 1999.

[41] 1999 Ind. LEXIS 548 (July 30, 1999).

Of course, the IURC will continue to regulate Ameritech Indiana, GTE North, Inc., and other operating companies that are certified to provide telecommunications services in the State of Indiana even after a change in control at the holding company level. The IURC therefore has the means to address any aspects of the merger that might threaten the public interest. For example, using its authority under Indiana statute, the IURC might undertake a rate case to determine the cost savings that should flow back to Indiana rate payers as a result of the Ameritech/SBC and GTE/Bell Atlantic mergers.

There are three drawbacks associated with addressing a merger after it has been consummated, however. First, as demonstrated by SBC/Ameritech's submission and subsequent retraction of Indiana-specific merger conditions, a company is more willing to work with the IURC to develop a settlement that protects the public interest before the merger is consummated if the Commission has the authority to approve or deny the transaction. Second, the ability of the IURC to craft a set of merger conditions prior to the consummation of the transaction will avoid any negative outcomes from resulting in the first place. Third, it is administratively burdensome—both to the IURC and the affected telecommunications carrier—to engage in several separate proceedings to address identification and allocation of merger benefits, the impact on competition for local telephone service, affiliate transaction rules, advanced services deployment, etc., when all of these issues could be dealt with in a comprehensive proceeding prior to the consummation of the merger. In the absence of explicit authority to review mergers at the holding company level, the IURC believes that it will face an uphill battle in fulfilling its duty to protect the public interest now and in the future.

5. STREAMLINED REGULATION

Three years after the passage of the TA-96, the IURC has gained additional insight into emerging competition in all telecommunications markets, but particularly the market for local exchange telecommunications services. As markets change, so must the Commission's regulatory and administrative procedures. By the end of the 1999, the Commission hopes to implement streamlined application and tariff approval procedures that will eliminate the regulatory burdens faced by certain classes of telecommunications carriers. At the same time, the Commission also plans to become more responsive to inter-carrier disagreements through the adoption of an expedited dispute resolution process, as described in the Enforcement Section. All of these regulatory revisions, which are described below, reflect the need to amend regulation to promote competition for telecommunications services.

Competitive Local Exchange Carriers - Application, Tariffs, And Market Data

On June 15, 1994, the Commission initiated an investigation into matters relating to local telephone exchange competition within the State of Indiana.[42] This investigation was prompted by the Commission's acknowledgement of the growing need for a generic review of local exchange telephone competition issues and by legislative, consumer, and industry interest. Subsequently, this investigation resulted in interim orders dealing with the introduction of competition into the local exchange telephone market.

While the regulatory and administrative reforms that resulted from this initial investigation have been generally successful in promoting the goal of a more competitive local exchange atmosphere, it is the nature of an evolving market that further regulatory and administrative reform may be required. In the interest of administrative economy, the Commission believes that related administrative and regulatory matters should be addressed in this continuing Cause.

Based upon the information available to the Commission relating to the emerging local exchange telephone competition in Indiana and nationally, the Commission commenced a limited investigation, on its own motion, into procedures to streamline the initial application requirements and subsequent tariff approval procedures for carriers seeking a certificate of territorial authority (CTA) to provide local exchange telecommunication services within the State of Indiana.[43] The Commission also sought additional information from competitive local exchange carriers (CLECs) that will assist the Commission in tracking the development of local competition and the promotion of consumer choice on a prospective basis.

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[42] Cause No. 39983, In the Matter of the Investigation on the Commission's Own Motion into any and all Matters Relating to Local Telephone Exchange Competition within the State of Indiana.

[43] Cause No. 39983, In the Matter of the Investigation on the Commission's Own Motion into any and all Matters Relating to Local Telephone Exchange Competition within the State of Indiana, Order Reopening Cause for Limited Reconsideration of Proposed Streamlined Regulatory and Administrative Procedures, April 28, 1999.

Thus, on April 28, 1999, the Commission issued a straw man proposal that sought comment on the amended regulatory and administrative procedures described below.

First, Commission staff developed a form to be used by CLECs seeking a CTA for bundled resale of local exchange telecommunications services, pursuant to Section 251(c)(4) of the Act. The goal of this form is to expedite the processing of CTA applications. The Commission previously decided that it is not necessary to hold an evidentiary hearing for petitioners that seek a CTA for the bundled resale of an underlying ILEC's local exchange telecommunications service. However, many of the petitions that staff receive lack the requisite information, or present it in a manner that is misleading. To clear up staff questions that result, the Commission often holds an evidentiary hearing. This can delay the issuance (or denial) of a CTA for several months. The Commission believes that the proposed form will shorten the application and review processes because it clearly outlines the information to be presented. This makes it easier for a carrier to petition the Commission, and less timely for staff to review the application.

Second, in order to expedite the tariff approval process, the Commission proposed to allow a certified CLEC to adopt another CLEC's tariff, so long as such tariff has received final approval from the Commission. The Commission's proposal also would permit certified CLECs to submit an original tariff to the Commission for approval, with the tariff receiving interim approval 30 days after it is filed. Under this new regulatory procedure, CLECs would be allowed to offer service to end users based on the rates, terms and conditions contained in such tariff 30 days after it is filed with the Commission, without the final approval of the IURC. Under the Commission's current rules and regulations, a CLEC cannot offer service until its tariff receives final approval, which can take several months to obtain.

Third, the Commission proposes that CLECs fulfill the following reporting requirements:

1) all certified CLECs would be required to file their customer service information (address and telephone number) with the Commission, as well as any subsequent changes to this customer service information; and

2) all certified CLECs would be required to notify the Commission when they begin to provide service in an exchange, as well as whether business and/or residential customers are being served.

This information would be submitted to and maintained by the Commission's Consumer Affairs Division, and placed on the Commission's web page for public dissemination.

The goal of these new reporting requirements is to promote competition and customer choice by helping consumers make more informed decisions about their telecommunications services. Since the passage

of the TA-96, the Commission has received many calls from consumers who would like to sign up with a CLEC. Specifically, these individuals would like to know 1) which CLECs are serving their exchange and 2) how to contact these carriers. Unfortunately, the Commission cannot satisfy these requests because it does not have a complete listing of the exchanges that a CLEC is serving at any given time. The Commission also has not required CLECs to provide customer service addresses and telephone numbers.

Several parties filed comments with the Commission regarding the straw man proposal described above, including the Indiana Office of the Utility Consumer Counselor, Sprint-United, AT&T, Ameritech Indiana, GTE North, Inc., MCI WorldCom and the Telecommunications Reseller Association. The Commission has reviewed these comments, and will issue an order in this proceeding shortly.

Radio Common Carriers And Commercial Mobile Radio Service Providers

The IURC plans to streamline the application process for Radio Common Carriers (RCC) Commercial Mobile Radio Service (CMRS) providers, more commonly known as paging and cellular companies, by the end of 1999. The FCC has largely preempted the authority of state commissions to regulate these classes of telecommunications carriers. However, pursuant to state law, RCC and CMRS providers must still seek a CTA before providing telecommunications service in the State of Indiana.

Given the IURC's limited authority over these carriers and the competitive nature of this market, the IURC believes that a streamlined CTA application process will benefit the public interest. The IURC proposes to adopt a simple application form which will eliminate the requirement that a RCC or CMRS provider must formally petition the Commission in order to obtain a CTA. These new regulatory requirements will largely mirror the streamlined application process that the Commission applied to resellers of Wide Area Telephone Service (WATS) and intrastate, interexchange service in January 1998.[44]

[44] Cause No. 38149, In the Matter of an Investigation to Determine the Extent of Regulation of Wide Area Telephone Service (WATS) Resellers by the Commission Pursuant to Public Law 92-1985, I.C. 8-1-2.6-1, et. seq., Seventh Supplemental Order, January 14, 1998.

PART II
UPDATES

1. LOCAL EXCHANGE COMPETITION

On February 8, 1996, President Clinton signed into law the Telecommunications Act of 1996 (TA-96 or Act). The Act is a landmark piece of legislation designed to establish a national policy framework to implement fundamental change in the structure and dynamics of the telecommunications industry. The Act removes various restrictions contained in the Modified Final Judgement, a 1984 consent decree between AT&T Communications, Inc. (AT&T) and the U.S. Department of Justice that "broke up" AT&T into Regional Bell Operating Companies (RBOCs). For telecommunications service providers, the core of the TA-96 is a *quid pro quo:* the RBOCs will be allowed to compete in the long distance and manufacturing business, and in return, must open their markets to local competition.

The TA-96 affects nearly all areas of intrastate telecommunications services either directly through actions required of the states or indirectly through rulemakings required of the Federal Communications Commission (FCC). State commissions are charged with performing specific regulatory duties under the TA-96 that are meant to initiate pro-competitive policies at the local exchange level. State commissions must also undertake new administrative responsibilities that include advancing the goals of universal service and establishing policies for access to advanced telecommunications services by schools, libraries and health care providers.

Since last year's report, the Commission has continued to conductarbitrations; approve arbitrated and voluntarily negotiated interconnection agreements; investigate the universal service mandates of the TA-96; and determine rates for the provision of interconnection. The following progress has been made in the local telephone exchange competition investigation and implementation of the TA-96:

- the Commission reviewed for compliance and approved 126 voluntarily negotiated interconnection agreements and amendments to allow entry into local telephone service
- on November 4, 1998, in Cause No. 41324, the Commission opened an investigation into Operational Support Systems (OSS) that ILECs must provide to new competitors
- on November 12, 1998, in Cause No. 41077, the Commission determined that the interim calling scope restriction would no longer apply to AT&T
- on December 22, 1998, in Cause No. 41083-S1, the Commission opened an investigation into the impact of Long Term Number Portability on E911 services
- on September 16, October 28, and December 9, 1998, in Cause No. 40785, the Commission approved orders in its universal service reform and access reform investigation, Affordability and Comparability, 254(k) and Confiscation, and Access Charge Reform, respectively, that established guidelines for accomplishing rate conformance with the TA-96

- on April 28, 1999, in Cause No. 39983, the Commission issued a straw man proposal to streamline the Certificate of Territorial Authority and tariff filing provisions for the resellers of bundled local exchange service

- on May 14, 1999, the Commission approved Ameritech Indiana's wholesale tariff, setting discounts at 21.46% for carriers that request operator services/directory assistance and 22.13% for carriers that do not request operator services/directory assistance

- on May 25, 1999, the Commission initiated a rulemaking to update Indiana's current billing rules to largely mirror the FCC's new federal rules

WHOLESALE TARIFFS

On June 15, 1994, the Commission commenced an investigation of all matters relating to local telephone exchange competition within the State of Indiana. This "generic" investigation has been the vehicle for the review and introduction of many aspects of local exchange competition in Indiana. On July 1, 1996, the Commission issued an Interim Order on Bundled Resale and Other Issues in this cause, setting forth the terms and conditions for permitting the resale of local exchange services and ordering affected local exchange companies to file their wholesale tariffs on or before July 24, 1996. On October 15, 1997, the Commission issued its order on final reconsideration and further directed that interim wholesale tariffs be filed.

The TA-96 requires ILECs "to offer for resale at wholesale rates any telecommunication service that the carrier provides at retail to subscribers who are not telecommunications carriers."[45] Under the TA-96 the wholesale rates are based on retail rates "excluding the portion thereof attributable to any marketing, billing, collection, and other costs that will be avoided by the local exchange carrier."[46] On December 18, 1996, the Commission established across-the-board interim wholesale discounts from existing retail rates subject to true-up for both Ameritech Indiana (21 percent discount) and GTE (17 percent discount). In its reconsideration order, the Commission also required Ameritech Indiana and GTE to submit new wholesale tariffs. The Commission approved the interim wholesale tariffs of Ameritech Indiana and GTE on October 27, 1997, and December 19, 1997, respectively.

Additionally, the Commission initiated investigations to establish permanent wholesale rates for Ameritech Indiana (Cause No. 41055) on November 19, 1997, and for GTE (Cause No. 41117) on February 4, 1998.

On February 25, 1999 the Commission set final wholesale discounts for Ameritech Indiana. For carriers that request operator services/directory assistance the wholesale discount is 21.46% and for carriers that do not request operator services/directory assistance the wholesale discount is 25.04%. On March 17,

[45] Section 252(d)(3) of the TA-96.

[46] Ibid.

1999, Ameritech Indiana filed a Petition for Reconsideration and Request claiming the bifurcated discount was administratively burdensome and the calculation for carriers that do not provider operator services/directory assistance was incorrect. On April 21, 1999, the Commission reduced the rate for carriers that do not request operator services/directory assistance to 22.13% and allowed Ameritech Indiana to simplify its wholesale tariff. The Commission approved Ameritech Indiana's wholesale tariff on May 14, 1999.

The Commission has completed the evidentiary hearings to set the final wholesale discounts for GTE and should complete the review by this fall.

INTERCONNECTION AGREEMENTS

The TA-96 requires ILECs to interconnect their respective telephone networks with the networks and facilities of potential local competitors; unbundle their local networks into smaller components; and make their retail services available to competitors for resale. ILECs have an affirmative duty to negotiate the terms, conditions, rates and charges of interconnection with potential competitors.[47] In cases where the parties are unable to reach agreement on issues involving interconnection, Congress provided state commissions the means to resolve the disputes through either mediation or arbitration. Once agreements have been reached, either through voluntary negotiation or arbitration, those agreements must be filed with the appropriate state commission for approval.[48] The TA-96 sets forth certain procedural requirements for negotiations and arbitrations and provides standards for review and approval or rejection of the agreements.

The Commission contracted with an outside arbitration facilitator, Ms. MaryHinrichs, to arbitrate unresolved issues with the assistance of members of the Commission's technical staff for cases filed before January 1997. For cases filed after January 1997, the Commission's administrative law judges resolved arbitrations similar to other docketed cases.

As of August 31, 1999, the Commission had received 37 requests for arbitration under the TA-96 (30 involved Ameritech Indiana; 6 involved GTE; and 1 involved CBT).

In addition to the arbitrated agreements, the Commission received 62 voluntarily negotiated agreements and amendments between Ameritech Indiana and potential local competitors; 35 between GTE and potential local competitors; 15 between United Telephone (Sprint-United) and potential local competitors; 4 between TDS Telecom and potential competitors; and 3 between CBT and potential

[47] Congress established pricing standards for the prices which the competitor must pay the ILEC and, in limited circumstances, for the prices which the ILEC must pay the competitor. Most of these pricing standards are contained in Section 252(d) of the Act.

[48] These agreements may be relatively simple and resolve a small number of issues, or even a single issue; alternatively, they may resolve over one hundred issues and cover several hundred pages.

competitors. In addition, the Commission has received 18 requests to approve the adoption of interconnection agreements under the provisions of Section 252(i) of the TA-96. As of August 31, 1999, the Commission has approved 59 Ameritech Indiana, 30 GTE, 14 Sprint-United and 3 CBT voluntarily negotiated agreements. Additionally, the Commission approved the adoption of 16 interconnection agreements under Section 252(i) of the TA-96.

The Commission met all of the relevant statutory deadlines set forth in the TA-96 regarding negotiated and arbitrated agreements and, in many cases, issued its orders in advance of the required date.

COST INVESTIGATION FOR INTERCONNECTION AND UNBUNDLED NETWORK ELEMENTS

Section 252(d)(1) of the TA-96 requires state commissions to determine "just and reasonable" rates for interconnection and UNEs "based on the cost determined without reference to a rate-of-return or other rate-based proceeding." That section also requires that such rates must be nondiscriminatory and may include a reasonable profit. Similarly, Section 252(d)(2) requires state commissions to set just and reasonable charges for transport and termination of traffic to provide for the recovery of costs associated with the transport and termination of calls on a carrier's network that originate on the network facilities of another carrier. Finally, Section 251(c)(6) prescribes that rates for collocation must be just, reasonable and nondiscriminatory.

The FCC determined that the appropriate cost on which prices should be based was the forward-looking economic cost of providing each element, which is the sum of the total element long-run incremental cost (TELRIC), the non-volume sensitive costs, and a reasonable allocation of forward-looking joint and common costs.[49] Incremental costs are the additional costs a firm will incur as a result of expanding the output of a good or service by producing an additional quantity of the good or service. The term long run means a period of time long enough such that all of a firm's costs are variable or avoidable. The FCC's pricing methodology for unbundled elements is based on the most efficient technology deployed in the incumbent LEC's existing wire center locations.

According to the FCC, use of a forward-looking cost methodology (TELRIC) attempts to simulate the conditions in a competitive marketplace, allowing the new entrant to produce its product efficiently and to compete effectively, thereby driving retail prices to competitive levels. Consistent with Section 252(d)(1) of the TA-96, the FCC rejected the argument that unbundled elements should be priced on an embedded cost basis, stating that basing the prices for unbundled elements on embedded costs would not promote competition.

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[49] The 1997 Iowa Utilities Board decision invalidated the FCC rules which referenced the TELRIC methodology. Iowa Utiities Board v. FCC, 120 F.3d 753 (8th Cir. 1997), cert. Granted. However, that decision was overturned by the United States Supreme Court Ruling dated January 25, 1999. AT&T Corp. et al. V. Iowa Utilities Board et al., 119 S. Ct. 721, 142 L.Ed.2d 834 (1999).

The compressed schedules established by the TA-96 for arbitration of interconnection agreements did not allow the Commission sufficient time to evaluate Ameritech Indiana's or GTE's cost studies and establish permanent rates. Thus, the Commission set interim rates subject to true up pending further investigation.

The Commission's investigation of GTE and Ameritech Indiana's cost studies considered a number of issues including, but not limited to, general costing methodology, cost of capital, fill factors (amount of capacity in the network), depreciation, switching costs, transport and signaling, allocation of shared and common costs, non-recurring charges and recovery of stranded costs. Although the 1997 Iowa Utilities Board decision invalidated the FCC rules, nothing in the decision prevented a state from adopting the TELRIC methodology. In fact, GTE and Ameritech Indiana purported to do cost studies based partly on the TELRIC methodology. Thus, in both cases the Commission referenced the FCC's TELRIC methodology to determine rates for unbundled network elements, interconnection and collocation. The 1997Iowa Utilities Board decision was overturned by the United States Supreme Court Ruling dated January 25, 1999.

On May 7, 1998, in Cause No. 40618, the Commission rejected major portions of GTE's proposed cost study because it did not follow the guidelines of the TA-96 and ordered GTE to submit a new cost study in 60 days. On May 27, 1998, GTE filed a Petition for Reconsideration, Rehearing and a Stay, and Request for Clarification of the Commission's order. GTE filed revised cost studies on July 6, 1998.

On June 30, 1998, the Commission issued its decision in Ameritech Indiana's cost case in Cause No. 40611. Similar to GTE's case, the Commission rejected much of Ameritech Indiana's cost study. On July 20, 1998, Ameritech Indiana filed its Petition for Rehearing and Reconsideration and on that same date Ameritech Indiana also filed for a Stay of the Commission's order pending rehearing and reconsideration. On August 28, 1998 Ameritech Indiana filed revised cost studies.

In both cases the Commission set interim rates for most of the ordering provisions until a full investigation of the companies operational support systems, under Cause No. 41324, is completed. Both cases are pending.

LOCAL EXCHANGE CTAs AND TARIFFS

Companies that intend to compete against incumbent providers in the local exchange market must request and be granted a Certificate of Territorial Authority (CTA) from the Commission. Since enactment of the TA-96, a total of 92 alternate local exchange carrier (ALEC) petitions have been granted for a total of 121 ALEC CTAs; some ALECs seek bundled resale authority; some seek facilities-based authority; and a few seek both authorities.

As of July 31, 1999, the Commission has issued a total of 85 bundled resale CTAs and 36 facilities-based CTAs; 19 CTA requests are pending.

As with incumbent local providers, all new entrants must have tariffs on file with the Commission that detail rates, terms and conditions associated with the services that they provide. In an effort to process the high volume of proposed tariffs, and to allow new entrants to render service, the IURC is focusing its administrative efforts on those companies that indicate a strong desire to provide service in Indiana immediately rather than sometime in the future.

FEDERAL COURT APPEALS

The Telecommunications Act of 1996 (TA-96) fundamentally restructures telecommunications markets to introduce competition, particularly into local telephone service. To accomplish this goal as expeditiously as possible, TA-96 mandates an ambitious schedule for the FCC and state commissions to implement the Act's provisions. However, appeals of orders from FCC and state commissions in federal and state court have continued to stall the implementation of the Act. Without commenting on the merits of these appeals, they have nonetheless helped to delay or deny the expansion of local competition in Indiana.

Appeal of FCC's First Report and Order to Eighth Circuit

To facilitate market entry, TA-96 obligated incumbent local exchange carriers (ILECs) to share their networks with competitive local exchange carriers (CLECs). A CLEC can obtain access to an incumbent's network by purchasing local telephone services at wholesale rates from the incumbent for resale to end-users, by leasing elements of the incumbent's network, and by interconnecting its own facilities with the incumbent's network. On August 8, 1996, the FCC issued its First Report and Order (the first portion of the trilogy of interconnection, universal service, and access charge reform), which contained provisions designed to implement local competition, including certain pricing rules. Under the FCC's pricing rules, state commissions were preempted from using costing methodologies other than those authorized by the FCC. If a state commission was unable or unwilling to complete a cost review in compliance with the new rules, the FCC established proxy rates that state commissions were required to adopt.

Several parties, led by various incumbent LECs and state commissions, filed numerous challenges to the FCC's First Report and Order in federal circuit courts across the country. The LECs and the state commissions argued that the states have the primary authority to implement the local competitionprovisions, and thus the FCC lacked jurisdiction to promulgate its local competition rules. On September 11, 1996, the Judicial Panel on Multidistrict Litigation consolidated all of the appeals in the United States Court of Appeals for the Eighth Circuit. On July 19, 1997, the Eighth Circuit vacated the FCC's First Report and Order, finding, among other things, that the FCC lacked jurisdiction over intrastate matters under TA-96.[50] The

[50] Iowa Utilities Board, et al. v. Federal Communications Comm'n, et al., 120 F.3d 753 (8th Cir. 1997).

United States Supreme Court took the case on appeal from the Eighth Circuit on January 26, 1998.

On January 25, 1999, the Supreme Court issued an opinion in the case.[51] In its decision, the Court held:

1. The FCC's rulemaking authority extends to the implementation of §§251 and 252 (relating to local competition) because the Telecommunications Act of 1996 clearly applies to intrastate matters. The FCC therefore has jurisdiction to design a pricing methodology. Further, the FCC has jurisdiction to promulgate rules regarding state review of pre-existing interconnection agreements between incumbent LECs and other carriers, regarding rural exemptions and dialing parity.

2. The Court of Appeal's conclusions that the FCC did not have authority to review agreements approved by state commissions under the local competition provisions was in error because that claim is not ripe. The Commission's statement regarding such review has no immediate effect on the state commission's primary conduct, and therefore the federal court should not entertain this pre-enforcement challenge.

3. The FCC's rules governing unbundled access are consistent with TA-96, with the exception of Rule 319. The FCC reasonably interpreted the statutory definition of "network element" to include operator services and directory assistance, operational support systems (OSS) and vertical switching functions such as caller I.D., call forwarding, and call waiting. Rule 319 was vacated because the FCC did not adequately consider the § 251(d)(2) standards when it gave requesting carriers blanket access to network elements.

4. The FCC's "pick and choose" rule is the most readily apparent interpretation of § 252(i) and is therefore more than reasonable. The "pick and choose" rule allows a CLEC to select any combination of terms relating to interconnection, service, or network elements an ILEC has in any of its existing interconnection agreements to create its own new "package" of terms.

Appeal of Arbitrated Interconnection Orders in Federal Court

When telecommunications carriers are unsatisfied with the Commission's arbitration decisions relating to interconnection agreements, they may file suit in the United States District Court for the Southern District of Indiana pursuant to § 252(e)(6) of TA-96.

In response to the interconnection mandates of TA-96, Ameritech Indiana and AT&T engaged in interconnection negotiations which were not entirely successful. The parties submitted to arbitration of certain unresolved issues to the Commission. The Commission conducted arbitrations and approved an executed agreement between Ameritech Indiana and various other parties on March 26, 1997. Ameritech

Indiana filed a complaint against AT&T and the Commission in federal district court on April 25, 1997. In its appeal, Ameritech Indiana argues primarily that it will receive inadequate compensation for certain services and that the Commission erred in adopting AT&T's anti-publicity clause. The Indiana Attorney General's Office filed a motion to dismiss the case on behalf of the Commission, arguing that because the State of Indiana had not consented to suit in this action and Congress did not abrogate the State's immunity in passing TA-96, Ameritech Indiana is barred by the Eleventh Amendment from suing the State in federal district court. In July 1998, the district court denied the motion, finding the Eleventh Amendment does not bar judicial review in federal court under § 252(e)(6). Ameritech Indiana filed its brief on December 3, 1998. The Attorney General's Office has no plans to file a brief, as it has determined the case involves mainly the telecommunication carriers' battle over the terms of the interconnection agreement. As of August 12, 1999, the federal district court has made no decision in the case.

While the Attorney General's Office lost its Eleventh Amendment argument in the Ameritech Indiana case mentioned above, the status of the law relating to this Eleventh Amendment argument is in a state of flux. The Seventh Circuit originally supported the Southern District's decision in MCI Telecommunications Corp. v. Illinois Commerce Comm'n [52]; however, the Seventh Circuit reopened that case in light of a ruling from the United States Supreme Court. On June 23, 1999, the Supreme Court repudiated the doctrine upon which the Seventh Circuit had rested its conclusion that a state commission was not entitled to Eleventh Amendment immunity.[53] Taking the Supreme Court's decision into account, a Wisconsin federal district court recently held that the Seventh Circuit's prior decision inMCI is not controlling and dismissed three pending appeals of the Wisconsin state commission's arbitration decisions.[54] Other federal district courts may follow suit, or the issue may eventually become ripe for a decision from the high court due to conflicts among the circuit courts.

Ameritech Indiana and Sprint-United also submitted to arbitration for their interconnection agreement and stipulated that, as to certain issues, they would be bound to the decision of the Commission in the arbitration proceeding between Ameritech Indiana and AT&T. The Commission issued its arbitration decision as between Ameritech Indiana and Sprint-United on January 9, 1997. Ameritech Indiana also appealed this arbitration decision to the federal district court on April 25, 1997. In the Sprint-United appeal, Ameritech Indiana contested the requirements that it make available to Sprint-United certain promotional offerings at the same rate Ameritech Indiana charges its own customers. The parties in the case subsequently settled, and Ameritech Indiana and Sprint-United filed a joint stipulation of dismissal to the Court. On March 2, 1999, the Court approved the stipulations, and the case was dismissed.

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[51] Iowa Utilities Board, et al. v. Federal Communications Comm'n, et al., 119 S.Ct. 721 (1999).

[59] MCI Telecommunications Corp. v. Illinois Commerce Comm'n, 168 F.3d 315 (7th Cir., 1999).

[53] Florida Prepaid Postsecondary Education Expense Bd. v. College Savings Bank, et al, 119 S. Ct. 2219 (1999).

[54] Wisconsin Bell d/b/a Ameritech Wisconsin v. Public Service Commission of Wisconsin, et al., 1999 U.S. Dist. LEXIS 10884 (July 12, 1999).

Ameritech Indiana also appealed arbitration decisions involving twenty-one small rural Indiana ILECs. In Ameritech Indiana's complaint, it claimed that its Extended Area Service (EAS) agreements with the rural ILECs should be converted into interconnection agreements and therefore be subject to reciprocal compensation. The Attorney General's Office filed a motion on behalf of the Commission to dismiss the case. The Attorney General's Office was successful in its motion, and the District Court dismissed the case without prejudice for lack of subject matter jurisdiction on December 29, 1998.[55] The Court's decision explicitly recognized the IURC's authority, under 47 U.S.C. § 251(f), to suspend TA-96's provisions relating to reciprocal compensation agreements for the rural ILECs pending its determinations of other interrelated issues, such as universal service and whether EAS is a service that may be unbundled and subject to the reciprocal compensation requirements.

PAYPHONES/FCC PREEMPTION

Section 276 of the Telecommunications Act of 1996 required the FCC, within nine months of enactment of the Act, to prescribe regulations designed to encourage competition among payphone providers and promote widespread deployment of payphones. To this end, the FCC issued a series of related implementation orders significantly changing the payphone marketplace.[56]

As a result, several Indiana ILECs filed revised tariffs for approval under the Commission's 30-day filing procedures[57] to comply with certain of the FCC's payphone directives. However, prior to Commission action on these filings, the Indiana Payphone Association (IPA) filed a petition on April 15, 1997, docketed as Cause No. 40830. The IPA's petition sought a Commission investigation into the proposed ILEC payphone compliance tariffs and requested that the Commission hold the effectiveness of such tariffs in abeyance until such time as the Commission completed its investigation.

On October 15, 1997 in Cause No. 40830, the Commission issued a Preliminary Order denying IPA's request to hold the ILEC payphone tariffs in abeyance. Instead, the Order approved these tariffs on an interim basis, retroactive to April 15, 1997, and made the tariffs subject to refund.

Recognizing that the majority of ILEC payphones are provided by the three largest Indiana ILECs—Ameritech Indiana, GTE North, and Sprint-United—the Commission bifurcated its review of ILEC payphone

[55] Indiana Bell Telephone Co., Inc. d/b/a Ameritech v. Smithville Telephone Co., Inc., et al., 31 F. Supp. 2d 628 (S.D. Ind. 1998).

[56] See primarily Report and Order in CC Docket Nos. 96-128 and 91-35, dated September 20, 1996 ("Report and Order"); Order on Reconsideration in CC Docket Nos. 96-128 and 91-35, dated November 8, 1996 ("Order on Reconsideration"); Order in CC Docket No. 96-128, dated April 4, 1997 ("Clarification Order"); and Order in CC Docket No. 96-128, dated April 15, 1997 ("Order Granting Limited Waiver") as related orders.

[57] Pursuant to the Commission's June 30, 1994, Order in Cause No. 39705 (Opportunity Indiana plan), Indiana Bell Telephone Company, Inc., d/b/a Ameritech Indiana tariffs are processed differently than tariffs of other ILECs. Ameritech Indiana filed tariff sheets under this modified tariff process that it believes comply with the federal mandates. However, no specific Commission determination has been made.

tariffs. In phase one, which is currently underway, the Commission has established a review process for the three largest ILECs. In phase two, the Commission will review the payphone filings of all remainingILECs.

IPA provided the Commission with its case-in-chief in August 1998, and Ameritech Indiana, GTE, and Sprint-United filed rebuttal testimony in October 1998. Commissionstaff are in the process of reviewing these filings to determine the appropriate form of payphone tariff compliance filings including any amendments that might be required.

NUMBER PORTABILITY

A consumer's ability to retain his/her telephone number when switching local exchange carriers is a key component necessary for the emergence of competition in the local exchange telecommunications market. Congress recognized this fact by establishing a number portability provision in the TA-96.[58] The FCC has issued a number of orders affirming the importance of number portability for local exchange competition and articulating certain details of its implementation.[59] Within its purview, the IURC also has considered issues related to number portability.[60]

In its orders, the FCC mandated that Long-term Telephone Number Portability (LTNP) be implemented in phases, beginning with exchanges located in the nation's largest 100 Metropolitan Statistical Areas (MSAs) between October 1, 1997, and December 31, 1998.[61] The FCC's Reconsideration Order states that to reduce costs, an affected ILEC does not have to implement LTNP in all of its central offices (COs) within a MSA, only those COs that are chosen by an ALEC.[62] With the approval of the Commission, a number of ALECs have selected the central offices (COs) in each affected Indiana MSA, and LTNP has been implemented in the five Indiana MSAs that are among the nation's top 100.[63]

Regarding the technological implementation of number portability, the FCC has adopted performance standards, instead of a particular type of technology, leaving that determination to the individual

[58] Section 251 (b)(2) of the TA-96 specifies that a LEC has the duty ". . . to provide, to the extent technically feasible, number portability in accordance with the requirements prescribed by the Commission." According to the TA-96, number portability is defined as "the ability of users to telecommunications services to retain, at the same location, existing reliability, or convenience when switching from one telecommunications carrier to another."

[59] FCC 96-286, In the Matter of Telephone Number Portability, First Report and Order and Further Notice of Proposed Rule Making (First Report), released July 2, 1996, FCC 97-74, First Memorandum Opinion and Order on Reconsideration, released March 11, 1997, FCC 97-289, Second Report and Order, released August 18, 1997, FCC-98-82, The Third Report and Order, released May 12, 1998.

[60] Cause Nos. 39983 and 41083.

[61] FCC 96-286, ¶ 77.

[62] FCC 97-74, In the Matter of Telephone Number Portability, First Memorandum Opinion and Order on Reconsideration, released March 11, 1997, CC Docket No. 95-116 ¶ 70.

[63] These MSA are Fort Wayne, Gary, Indianapolis, and the Indiana portions of Louisville and Cincinnati.

states.[64] Like many other states, Indiana has employed the Location Routing Number (LRN) technology, which complies with the FCC performance standards, for the purpose of number portability.

Certain telecommunications providers may chose not to maintain the call routing information necessary for LRN, but they still need to originate calls to exchanges where telephone numbers are being ported. The FCC has allowed the ILECs that maintain such routing information to provide, for a fee, a call routing query service to carriers who do not maintain call routing information.

Although the Commission has been preempted in LTNP cost recovery matters by the FCC, the Commission continues to deal with issues relate to LTNP. In a December 22, 1998, Order in Cause No. 41083, the Commission acknowledged the need to address the impact of LTNP on E911 and resolve certain billing issues by opening a sub-docket into such issues. Since the issuance of that order, the Local Number Portability Task force has met several times to in an effort to resolve outstanding issues.

SLAMMING

In the 1999 Indiana legislative session, two changes were made to the slamming law. First,I.C. 8-1-29 was amended to codify the IURC's administrative rules on procedures for verifying that a customer desires a change in his or her telecommunications carrier. See HEA 1434. Essentially, a customer requesting a carrier change must verify the change by submitting a letter of agency, an electronic authorization, verification through an independent third party, or any other procedure approved by the IURC.

The second change in the slamming law was made by HEA 1628, which adds I.C. 8-1-29-7.5 and gives the IURC authority to impose a civil penalty of up to twenty-five hundred dollars ($2,500) per offense for a violation of the slamming law or administrative rules. Since the civil penalty provision became effective on July 1, 1999, the IURC has not yet invoked its fining authority.

INVESTIGATION OF TELEPHONE COMPANY BILLING PRACTICES

On June 2, 1998, the Indiana Office of the Utility Counselor ("OUCC") petitioned the Commission to open an investigation regarding telecommunications company billing practices. As part of its petition, the OUCC asked the Commission to institute a rulemaking to update 170 IAC 7-1.1-12, the section of the Indiana Administrative Code that mandates the information that must be included in telephone bills.

In its petition, the OUCC stated the current billing standard, which requires cumulative amounts for service rather than service-by-service itemization, does not provide consumers with enough information to "effectively monitor their telephone billings for unwanted or unnecessary services," nor does it allow consumers to make comparisons between the services offered by their current local exchange carrier and

[64] FCC 96-286, ¶ 46.

competitive carriers.[65] The OUCC also stated that the Commission's rules are outdated because many new telecommunications services have been developed since the rules were last updated in 1979.

On June 25, 1998, the Commission opened an investigation into telecommunications company billing practices in Cause No. 41189. During the Fall and Winter 1998-1999, the IURC, OUCC, and several Indiana telecommunications carriers participated in informal technical conferences to discuss a variety of billing issues. Parties mutually agreed to not engage in a formal hearing process pending an outcome in the FCC's separate investigation of telephone company billing practices, which addressed many of the issues outlined in the OUCC's petition to institute Cause No. 41189. Subsequently, on April 15, 1999 the FCC adopted its "truth-in-billing" order[66], which established national billing rules applicable to all telecommunications carriers.

The FCC Order established three general truth-in-billing principles:

1. consumer telephone bills must be clearly organized, clearly identify the service provider, and highlight any new providers;
2. bills must contain full and non-misleading descriptions of the services and charges that appear therein; and
3. bills must contain clear and conspicuous disclosure of any information the consumer may need to make inquiries about, or contest charges, on the bill.

The FCC believes these principles will allow consumers to determine whether they have been "slammed" or "crammed" by unscrupulous providers of telecommunications service. Further, the FCC feels that these guidelines and requirements will also serve as a preventive measure against slamming and cramming because the new billing requirements will show any changes in a customer's account and the addition of any new services or providers.

The FCC found that these truth-in-billing principles apply to both interstate and intrastate services. Similar to the FCC's earlier slamming rules, the FCC's Truth-in-Billing Order establishes a national floor, and allows states to develop rules that are more stringent than those presented in the FCC Order.[67]

[65] Cause No. 41189, In the Matter of an Investigation Regarding Telephone Company Billing Practices, Itemized Telephone Bills, and Rulemaking to Revise 170 IAC 7-1.1-12, dated June 2, 1998.

[66] In the Matter of" Truth-in-Billing and Billing Format.CC Docket 98-170, adopted April 15, 1999.

[67] Order, paragraph 26.

Upon the request of the OUCC[68], on May 25, 1999, the IURC initiated a rulemaking to update Indiana's current billing rules to largely mirror the FCC's new federal rules, since the federal rules addressed many of the concerns that motivated the OUCC's original filing in this matter. If the procedural schedule is adhered to, this rulemaking should be complete by April 2000.

RECIPROCAL COMPENSATION

On January 2, 1998, Time Warner Communications of Indiana, L.P. ("Time Warner") filed a complaint against Ameritech Indiana seeking to enforce the terms and conditions of the parties' Interconnection Agreement as it relates to payments of reciprocal compensation for traffic bound for Internet Service Providers ("ISPs").[69] The dispute involved two issues: 1) the jurisdictional nature of traffic bound for an ISP and 2) whether or not the agreement requires parties to apply reciprocal compensation to such traffic.

ISPs are entitled under FCC policy to obtain, as end users, intrastate local exchange services. An ISP provides its customers the ability to reach the Internet or other online information services. An end user dials a local telephone number corresponding to a telephone exchange service that the ISP purchased from a local exchange carrier operating in the local calling area.

According to Time Warner, traffic bound for an ISP is local traffic and thus subject to the reciprocal compensation provisions outlined in its interconnection agreement with Ameritech Indiana. Pursuant to this agreement, Time Warner argued that Ameritech Indiana was required to pay Time Warner to terminate local telephone calls, including calls to ISPs, that originate with Ameritech Indiana customers and terminate on Time Warner's network. Ameritech Indiana disagreed with Time Warner's interpretation of the interconnection agreement, arguing that traffic bound for an ISP is not local traffic, and thus is not subject to reciprocal compensation payments, pursuant to the agreement.

It should be noted that this dispute is not unique to Indiana. Since the passage of the TA-96, ILECs and CLECs have disagreed over the payment of reciprocal compensation for Internet traffic. This is because many CLECs signed up ISPs as end users. Since reciprocal compensation typically is paid to the carrier that terminates a call, CLECs could gain substantial reciprocal compensation payments from other carriers because ISPs receive a large volume of in-bound calls.

[68] Cause No. 41189, In the Matter of an Investigation Regarding Telephone Company Billing Practices, Itemized Telephone Bills, and Rulemaking to Revise 170 I.A.C. 7-1.1-12, Indiana Office of Utility Consumer Counselor's Motion for Change of Substance of Relief Requested from an Investigation to Rulemaking Procedure, June 15, 1999.

[69] Cause No. 41097, In the Matter of the Complaint of Time Warner Communications of Indiana, L.P. Against Indiana Bell Telephone Company, Incorporated, d/b/a Ameritech Indiana, for Violation of the Terms of the Interconnection Agreement.

On February 3, 1999, the Commission issued an Order finding that under the terms of the parties' interconnection agreement, calls to ISPs constitute local traffic subject to the reciprocal compensation provisions in the interconnection agreement. The Commission made this decision based on the finding that Ameritech Indiana had voluntarily agreed to pay Time Warner for such traffic, not on a general finding that all traffic bound for an ISP is local traffic. Specifically, the Commission found that since Ameritech Indiana did not establish a means to distinguish traffic that terminates with an ISP from traffic that terminates with any other end user, it falls within the definition of "Local Traffic" outlined in the interconnection agreement.

Subsequently, the FCC issued a Declaratory Ruling and Notice of Proposed Rulemaking in CC Dockets 96-98 and 99-68 ("Declaratory Ruling"), which found that traffic bound for an ISP is interstate, not local, traffic.[70] However, in its Declaratory Ruling, the FCC considered that parties may have entered into interconnection agreements intending to apply reciprocal compensation to ISP bound traffic, and concluded that its Declaratory Ruling should not be construed to question determinations by state commissions that parties had agreed to treat such traffic as local traffic under existing interconnection agreements. Therefore, in a June 9, 1999 Order in this Cause, the Commission rejected a February 23, 1999 Petition for Rehearing and Reconsideration filed by Ameritech Indiana. The Commission found that Ameritech Indiana's appeal was based on arguments no different than those it raised in this proceeding prior to the Commission's February 3 Order. The Commission also found that the FCC's subsequent Declaratory Ruling upheld the authority of state commissions such as the IURC to enforce provisions in existing interconnection agreements that require the payment of reciprocal compensation for ISP-bound traffic.

The FCC's Declaratory Ruling raised a fundamental issue of concern to the Commission outside Cause No. 41097. In the Declaratory Ruling, the FCC asserted its jurisdiction over Internet traffic yet left states the responsibility for recovering the cost of the facilities used to carry this traffic through the assignment of LEC costs and revenues to the intrastate jurisdiction. In comments filed with the FCC[71], the Commission stated its position that if the FCC exercises jurisdiction over Internet traffic, the FCC should be responsible for both setting rates and recovering costs for such traffic, rather than relying on the states to set prices (and recover the costs) for local access lines sold to both end users and ISPs.[72] Assigning the costs and revenues associated with Internet traffic solely to the intrastate jurisdiction could force basic local service customers in the State of Indiana to recover more than their fair share of common plant costs in possible violation of the TA-96. Simply stated, if Internet traffic is interstate traffic, then intrastate basic local service rates, which currently recover the cost of Internet access, might be too high. The Commission recommended

[70] In re: Implementation of the Local Competition Provisions in the Telecommunications Act of 1996 (CC Docket 96-98) and In re: Inter-Carrier Compensation for ISP-Bound Traffic (CC Docket 99-68), February 26, 1998.

[71] In re: Implementation of the Local Competition Provisions in the Telecommunications Act of 1996 (CC Docket 96-98) and In re: Inter-Carrier Compensation for ISP-Bound Traffic (CC Docket 99-68), Comments of the Indiana Utility Regulatory Commission, filed April 12, 1999.

[72] Several other state commissions, including the Florida Public Service Commission, the Pennsylvania Public Utility Commission, and the Wyoming Public Service Commission filed comments with the FCC that concurred with the Indiana Utility Regulatory Commission's position.

that the FCC, through the Separations Joint Board, assign the traffic sensitive and non-traffic sensitive costs associated with Internet traffic to the interstate jurisdiction. The FCC has not addressed this issue to date.

AT&T COMMUNICATIONS EXPANSION OF LOCAL CALLING SCOPE (CAUSE NO. 41077)

When AT&T received its Certificate of Territorial Authority (CTA) allowing it to operate as a facilities-based provider of local exchange service, the CTA included an interim calling scope restriction that limited provision of service to the incumbent LEC's current calling scope. On December 5, 1997, AT&T petitioned to have the calling scope restriction lifted, stating that it could not proceed with the introduction of its AT&T Digital Link offering with the calling scope restriction. Several small incumbent LECs intervened in the proceeding, expressing concerns about how the expansion of calling scope might impact the existing settlements and access charges system. On November 12, 1998, the IURC granted AT&T's petition, and determined that the interim calling scope restriction would no longer apply to AT&T with respect to its offering and furnishing of local services in Indiana. The IURC also found that AT&T should use the incumbent LEC rate centers for determining whether local interconnection or access charges apply to the origination and/or termination of calls, or for computing the distance of the calls. A Petition for Rehearing and/or Reconsideration filed by the Indiana Exchange Carrier Affiliation is currently pending.

OSS INVESTIGATION (Cause No. 41324)

Operational Support Systems (OSS) is the general framework for how an ALEC orders, provisions, and is billed for service from an ILEC. To compete successfully in the local exchange market an ALEC must have access to the ILEC's OSS at reasonable costs. An ILEC's failure to have sufficient OSS has proved to be a major stumbling block for the FCC's consideration of RBOC entry into the long-distance market (more commonly called 271 authority). In the Commission's UNE cost docket (Cause No.'s 40611 - Ameritech and 40618 – GTE) interim rates for services within OSS were set and a separate docket, Cause No. 41324, was initiated to investigate OSS.[73] In Cause No. 41324 the Commission established three phases: Phase 1--gathering information on the ILECs existing systems, Phase 2--determining the performance standards, and Phase 3--determining the cost for provisioning OSS. The Commission has completed Phase 1 and parties are using technical workshops to attempt to complete Phase 2 by the end of the year. The parties have determined that OSS work from other states, most notably California and Texas, should be used as a basis to reach consensus.

[73] Although Sprint-United was not involved in a UNE cost docket, it was named as a respondent in Cause No. 41324 since it is an ILEC that currently resells services to ALECs.

2. UNIVERSAL SERVICE

Universal service has always been an important issue in the telecommunications industry. The concept of universal service often assumes the widespread availability of certain telephone services at reasonable rates. As far back as 1934, Congress declared that:

> "[T]he Federal Communications Commission shall regulate interstate telecommunications service so as to make available, so far as possible, to all people of the United States a rapid, efficient, Nationwide, and world-wide wire and radio communications service with adequate facilities at reasonable charges, for the purpose of the national defense, . . "

More recently, as a part of TA-96, Congress required that:

> Consumers in all regions of the Nation, including low income consumers and those in rural, insular, and high cost areas, should have access to telecommunications and information services . . . that are reasonably comparable to those services that are provided in urban areas and that are available at rates that are reasonably comparable to rates for similar services in urban areas. 47 U.S.C. 254(b)(3).

Furthermore, the FCC and the States are required to "ensure that universal service is available at rates that are just, reasonable, and affordable."[74] In Indiana, the General Assembly has declared that "[t]he maintenance of universal telephone service is a continuing goal of the commission in the exercise of its jurisdiction."[75]

The TA-96 seeks to advance and preserve universal service by empowering the FCC to develop a minimum definition of universal service and establish federal support mechanisms. States will remain responsible for implementing universal service in intrastate services.

LIFELINE AND LINK UP INDIANA

Description of Programs

At the present time, the IURC and Indiana incumbent local exchange carriers participate in two federal programs, Lifeline and Link Up.[76] At a minimum, Lifeline service "must include the following services: single-party service; voice grade access to the public switched telephone network; DTMF or its functional digital equivalent; access to emergency services; access to operator services; access to

[74] 47 U.S.C. 254(i).

[75] I.C. 8-1-2.6-1(1).

[76] The guidelines for the Lifeline and Link Up programs may be found at Subpart E of the FCC's "Part 54" Rules, currently set forth at 47 CFR 54.400 – 54.417.

interexchange service; access to directory assistance; and toll-limitation services . . ."[77] In order to keep these services affordable, Lifeline involves a customer credit for interstate subscriber line charges for eligible low-income customers and, in some cases, reductions in their basic local exchange rates, as well.

Beginning January 1, 1998, the FCC authorized all Lifeline customers to receive $3.50 in federal support, without the need for any action by the States.[78] The IURC approved the second level of support for all Indiana ILECs in 1997, for a total amount of federal Lifeline support in Indiana of $5.25. Out of this $5.25, $3.50 goes to reduce interstate end user charges and the rest goes to reduce the rates for basic residential local exchange service.[79]

The Link Up program is intended to make telephone service more affordable to persons who might otherwise be unable to subscribe because of the initial connection charge. This is accomplished through a customer credit toward 50% of that connection charge, up to a maximum of $30.00 (half of $60.00). The Link Up program also includes an interest-free deferred payment plan for up to $200.00 in connection fees, for a period "not to exceed one year." Link Up subscribers may take advantage of one or both of these features.

Eligibility requirements for Lifeline customers in states that do not provide state Lifeline support [e.g., Indiana] are set forth in the FCC's rules. Essentially, Lifeline and Link Up benefits are available to low-income consumers who participate in one of the following programs: Medicaid, food stamps, Supplemental Security Income, federal public housing assistance, or Low-Income Home Energy Assistance Program [LIHEAP]. Lifeline subscribers must sign a statement verifying their participation to the carrier, under penalty of perjury.

The offering of universal service (as defined by the FCC) along with the provision of Lifeline and Link Up services is a federal requirement for certification by the IURC as an "eligible telecommunications carrier" (ETC). In turn, certification as an ETC is a prerequisite to receiving money from most of the federal universal service funds, including reimbursement for providing Lifeline and Link Up services. Currently, funding for the federal Lifeline and Link Up programs is recovered through interstate access charges.

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[77] *In re: Federal-State Board on Universal Service*, CC Docket No. 96-45 [FCC 97-157], at Para. 384 (Report and Order) [hereinafter, *FCC Universal Service Order*] (Rel. May 8, 1997). See, also, 47 CFR 54.401(a); 47 CFR 54.101(a). With the exception of toll-limitation services, all of these others are also part of the FCC's general definition of universal service that ETCs must provide to high cost, rural, and insular areas. 47 CFR 54.101(a). We note that the U.S. Court of Appeals for the 5th Circuit recently invalidated portions of the FCC's May 7, 1997, Universal Service Order, specifically including the requirement to provide toll-limitation services to low income consumers. *Texas Office of Public Utility Counsel et al. v. FCC and U.S.*, Petitions for Review of a Final Order of the FCC, at Sect. II.A.3. "Authority to Prohibit Carriers from Disconnecting Local Service to Low-Income Consumers Who Fail to Pay Toll Charges" (July 30, 1999). The ultimate legal status of this requirement is thus unclear at this time.

[78] FCC Universal Service Order, at Paras. 351, 353. See, also, 47 CFR 54.403(a).

[79] 47 CFR 54.403(b).

To date, the Commission has certified all 42 Indiana ILECs as ETCs. To date, no non-ILEC telecommunications carrier has applied to the IURC for ETC certification to provide Lifeline or LinkUp programs in Indiana.

Lifeline and Link Up Statistics [80]

Of the 42 ILEC ETCs, 5 have never requested reimbursement for Lifeline or Link Up programs. Ten of the ILECs claimed $0.00 in Lifeline reimbursement in 1998.[81] In 1998, an estimated 12,427 Lifeline subscribers in Indiana[82] received a total of $782, 948 in federal support.[83] The June 1999 FCC Monitoring Report further estimates that 4,595 subscribers in Indiana received Link Up assistance in 1998[84] and that Indiana ILECs had received $103,698 in 1998 Link Up reimbursements.[85] This represents a 77% increase in claimed Link Up reimbursements over the corresponding 1997 figure of $58,703.[86] The large increase may be explained by a change in FCC eligibility requirements: companies wishing to receive most other types of federal universal service and high cost support are now required to offer both Link Up and Lifeline assistance to eligible low income consumers. Prior to the passage of TA-96, carriers that were otherwise eligible could receive federal high cost support without participating in these two low-income programs. From 1988 to 1998 (inclusive), FCC and USAC preliminary data show that Indiana ILECs requested approximately $759,000 in reimbursement for participating in the Link Up programs.[87]

CAUSE NO. 40785 - THE COMMISSION'S INVESTIGATION INTO UNIVERSAL SERVICE REFORM AND ACCESS CHARGE REFORM

Beginning in the fall of 1998, the Commission issued a number of orders and docket entries in Cause No. 40785 designed to bring the three largest ILECs' retail local exchange rates and costs into compliance with Section 254 (the "universal service" section) of the TA-96. These orders dealt with a number of complex, interrelated issues: affordability of rates; comparability of rates and services between "rural, high cost, and insular" areas with the rates in urban areas for similar services; subsidies; confiscation and unconstitutional takings; allocation of joint and common costs (e.g., loop costs) between universal service

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[80] All 1998 figures are estimates.

[81] Based upon informal discussions between Commission staff and USAC staff.

[82] FCC Monitoring Report, at Table 2.5, "Lifeline Assistance – Subscribers by State or Jurisdiction," Page 2-34.

[83] FCC Monitoring Report, at Table 2.3, "Low Income Program Dollars by Study Area: January – December 1988," Page 2-13.

[84] FCC Monitoring Report, at Table 2.8, "Link Up Assistance – Subscribers by State or Jurisdiction," Page 2-59.

[85] FCC Monitoring Report, at Table 2.9, "Link Up Assistance Annual Payments by State or Jurisdiction," Page 2-60.

[86] Ibid.

[87] Ibid.

and other telecommunications services; the continued mirroring of access charges; and the types of cost studies that would need to be filed to comply with the cost allocation requirements.

A brief discussion of several of these orders follows, as well as the relationship between Cause No. 40785 and other IURC proceedings that may affect rates and/or costs of the three largest ILECs in the state.

Affordability and Comparability (September 16, 1998)

In its September 16, 1998, Order in Cause No. 40785, the Commission adopted "the principles set forth in Section 254(b) of TA96, including the additional principle of competitive neutrality as adopted by the FCC, as a suitable guide or basis for the preservation and advancement of universal service in Indiana."[88] In the same Order, the Commission found that "current rates in Indiana are affordable based on the testimony submitted in Cause No. 40785, and the current telephone service penetration levels," even though it could not establish an absolute "affordability" standard for telecommunications services, interexchange services, advanced telecommunications and information services [Sect. 254(b)(1)].[89] The Commission also found that affordability for universal service should be determined from the customer's perspective and "should not depend on the cost of providing universal service to that consumer"and that targeted programs such as Lifeline and Link Up might also be used to satisfy the affordability for universal service/basic local exchange service. Finally, the Commission declined to expand the definition of universal service "to include information services ('advanced' or otherwise) and/or advanced telecommunications services" but observed that it "may [do so] . . . at some point in the future."

Section 254(k) and Confiscation (October 28, 1998)

On October 28, 1998, the IURC ruled on the general principles for ILECs to bring their rates and costs into compliance with the TA-96 – in particular, Section 254(k). While this ruling did not require any specific changes in rates, it did establish guidelines for any future rate change requests from Indiana local exchange carriers. Indeed, the purpose of the October 28 Order was to respond to the desire of certain local telephone companies to adjust their rates between classes of customers, or "rebalance" their rates.[90] The issues involved with the fair, just, and reasonable rebalancing of rates, as discussed in the Order are:

1. Confiscation claims and the responsibility of intrastate rate payers to fund that "confiscation liability";
2. Compliance with Section 254(k) of TA96;
3. Prohibited subsidization between certain services and customer groups;

[88] Cause No. 40785, Ordering Para. No. 1, at 16 (Sept. 16, 1998).

[89] Cause No. 40785, Order at 16 (Sept. 16, 1998).

[90] See, e.g., Cause No. 40785, Dr. Robert G. Harris (Ameritech) – Prefiled Direct Testimony, at 49 (April 14, 1998); Ameritech Indiana Legal Brief, at 47, 53 (April 15, 1998); Ameritech Indiana Legal Brief in Reply to the Legal Questions, at 17 (April 14, 1998).

4. The services included in the definition of "universal service"; and
5. A determination of the joint and common costs of the facilities used to provide both universal service and other services (as well as other types of joint and common costs), and the allocation of those costs to different service groups and the services within those groups.

In considering any rate rebalancing plan, the Commission is required by both the United States and Indiana Constitutions to ensure that it does not take action that results in illegal takings from any company that is offering intrastate services under its jurisdiction. The Commission determined that a claim of confiscation can only be made in the context of a thorough review of the overall, net effect of regulation upon a utility's revenues, earnings, and financial integrity, based on the actual effect of rates already imposed. All claims must be quantified and filed under the appropriate state statutes. The Commission explained, "The law on 'confiscation' also disposes of the arguments in favor of 'revenue neutrality'. As the courts have make clear, public utilities are not entitled to any specific revenue or any specific return on investment."[91] Furthermore, the Commission found that costs cannot be allocated to any one of the service groups on a residual basis. For example, one of the "Big 3" ILECs might propose to eliminate its intrastate carrier access charges (which are in the second basket) that currently recover some loop costs. However, if it does so, it cannot shift those costs back to residential or single line business local exchange customers on a residual basis.

The October 28 Order also establishes "subsidy tests" necessary to implement Section 254(k) of the Act, which requires that services that are "not competitive" cannot subsidize services that are "subject to competition." Under the Commission's subsidy tests, a company claiming this type of prohibited cross subsidization would also be required to file incremental cost studies for the service that is allegedly being subsidized and stand alone cost studies for the service that is allegedly providing the subsidy.

While Congress has granted States some discretion with regard to establishing a definition of "universal service," the Commission adopted the FCC's definition. In the event the Commission elects to establish a broader definition in the future, under Section 254(f), it must also establish a state universal service funding mechanism, for such broader definition. No determination has been made at this time regarding either expanding the definition of universal service or implementing a state universal service fund(s).

The Commission's October 28 Order requires any company requesting to "rebalance" its rates to submit cost studies that place each service into one of three service groups:

- Intrastate regulated services included in the definition of universal service;
- Intrastate regulated services not included in the definition of universal service; or
- Intrastate non-regulated services not included in the definition of universal service.

Finally, the October 28, 1998, Order defined which company costs are joint and common to multiple services and customer classes. At a minimum, these joint and common costs include corporate operation expenses, general support facilities costs, loop costs, spare capacity costs, and official services costs. The Order also established guidelines for the allocation of those joint and common costs to the three service groups identified above. Under federal law [254(k)], "services included in the definition of universal service [the first basket] cannot bear more than a reasonable share of the joint and common costs of the facilities used to provide those services." In practical terms, this means that residential and single line business customers for basic local exchange cannot be required to pay 100% of the serving ILEC's loop costs, the administrative and overhead expenses, spare capacity costs, or official services costs. Some portion of these costs must be recovered from all three service groups. The Commission determined that allocation of loop costs to local exchange customers is further constrained by the FCC's "separations" rules that require the cost of the loop to be separated between the interstate and intrastate jurisdictions. Currently, under theseparations rules, only 75% of the loop costs are recoverable from the intrastate jurisdiction.

State Access and Toll Issues (December 9, 1998)[92]

On December 9, 1998, the Commission addressed access charge reform and intrastate toll (interexchange) rates. The Commission determined that ILECs should continue the practice of mirroring FCC established access rate structures, as well as the terms and conditions of applicable interstate access tariffs, and the relationship between non-recurring and recurring charges for access charges. However, the Commission found that reform to access charge rate levels could not be implemented without cost studies from incumbent local exchange carriers that are filed as part of comprehensive rate rebalancing cases and that comply with the 254(k) [October 28, 1998] and Affordability/ Comparability [September 16, 1998] Orders. This represents a departure from current practice, in which the majority ofILECs in Indiana "mirror" both access charge structures and rates set by the Federal Communications Commission, instead of filing access charge cost studies with the IURC.

For an ILEC to comply with those two orders, it must first allocate joint and common costs between the three service groups set forth in the October 28 Order. Next, it must allocate the joint and common costs that were allocated to the second basket (regulated services that are not considered part of universal service) to the services within the second basket (e.g., carrier access Centrex) within the second service group in order to determine its intrastate carrier access charge rate levels. ILECs have a fair amount of flexibility in allocating costs to each of the three groups. However, the methodology for allocating joint and common costs within the first two groups must be generally reasonable. In addition, the allocation of costs to carrier access

[91] Cause No. 40785, at p. 11 (Jan. 20, 1999).

[92] In its January 20, 1999, Order in Cause No. 40785 (page 19), the Commission clarified that it "did not intend to include the INECA members, or any company other than the federal price-cap companies, in the statements in the December 9 Order regarding rate rebalancing or compliance proposals. The rate compliance of the small companies will be addressed in future proceedings."

charges, and the access charge rate levels, themselves, must be reasonable, consistent with applicable state law.

In the December 9 Order, the Commission also found that, "in order to achieve the objectives of Section 254(g) [of TA96], . . . all Indiana retail intrastate interexchange toll rates are to be geographically averaged."[93]

Mirroring of Access Charges (December 29, 1998)

On December 29, 1998, the Commission stated that,

> Now that the ground rules for rate rebalancing have been established by our trilogy of orders, we will soon be issuing an order requiring all price-cap LECs [Ameritech Indiana, GTE and Sprint-United] to file cost studies that can then be used as a basis for implementing rebalanced rates. We expect the cooperation of the price-cap LECs in this regard. To the extent that cooperation is not forthcoming, or if for any other reason access reform becomes stalled, we may decide to eliminate our existing mirroring policy. In its place, and until all rates are conformed with TA '96, we may set access rates without determining the impact of any such access charge changes on other rates and charges or customers and customer classes.
>
> . . . .
>
> **Because we anticipate receiving cost studies from price-cap LECs and issuing orders rebalancing those LECs' rates in an expeditious manner, we anticipate that the method of mirroring access charges approved herein will continue in effect for a limited time only. However, as we stated above, if cost studies are not submitted, or if it appears to us that access reform has become stalled, we may evaluate the propriety of continuing to mirror interstate access charges on an intrastate basis.**

Cause No. 40785, at 10 (Dec. 29, 1998) [emphasis added].

Order on Petitions for Reconsideration/Rehearing (January 20, 1999)

The October 28 Order was the most controversial of the Orders discussed above. Many parties disputed the Commission's analysis and findings in that Order. "The heart of the Petitions for Reconsideration of [that Order] revolves around three key issues: the Commission's decision that the loop is a joint and common cost; the Commission's reliance upon jurisdictional separations principles to distinguish between interstate and intrastate costs; and the Commission's alleged violation of Section 254(e) of the federal Communications Act of 1934, as amended."[94] Many companies argued, essentially, that the local loop used to connect end user customers (e.g., residential and business local exchange customers) to the telephone network cannot be a joint and common cost because residential and business local exchange

[93] Cause No. 40785, at 10 (Dec. 9, 1998). 47 U.S.C. 254(g): "Rates charged by providers of interexchange telecommunications services to subscribers in rural and high cost areas shall be no higher than the rates charged by each such provider to its subscribers in urban areas."

[94] Cause No. 40785, at page 10 (Order on Petitions for Reconsideration/Rehearing) (Jan. 20, 1999).

customers somehow "cause" the need for a local loop. Under this argument, local exchange ratepayers would pay for 100% of the local loop; other services and customers, who also depend on the local loop (e.g., interexchange carriers) would not have to pay anything for the use of the ILECs' local loops.

The Commission rejected this argument, saying that it was:

> compelled [to] make it clear that several of the arguments raised in the Petitions for Reconsideration demonstrate confusion and misinterpretation of the Commission's Order. The basis of many of the Petitioners' arguments seems to be various theories regarding incremental costs and revenue neutrality. **The Commission relied, instead, upon the United States Constitution** – specifically, the 5th Amendment's prohibition on the taking of property by 'Congress' without just compensation and the applicability of those provisions to the States through the 14th Amendment . . . **Nonetheless, we did not rely solely upon our own interpretation of the constitution. The United States Supreme Court has previously ruled on the applicability of these provisions to public utilities.** We discussed several of those Supreme Court rulings in the October 28, 1998 Order. **Our Order is consistent with those rulings**; there is no need to discuss them further. **We are certain that none of the Petitioners expected us to ignore the Constitutions of the United States and Indiana and the opinions of the United States Supreme Court.**

Cause No. 40785, at page 11 (Order on Petitions for Reconsideration/Rehearing) (Jan. 20, 1999) [emphasis added].

Rate Conformance Subdockets (January 20, 1999)

As of January 20, 1999, the Commission had not received any petitions requesting rate rebalancing; therefore, on January 20, 1999, the IURC opened separate investigations of Ameritech Indiana, GTE and Sprint-United, in Cause Nos. 40785-S1, S2 and S3, respectively. The Commission acted on its own motion to determine whether the companies' respective rates are in compliance with various portions of the TA-96 – especially Section 254(k) - and Commission directives related thereto.

As noted above, the Commission stated in its December 29 Order that it fully anticipated petitions for rate compliance to be filed due to indications from Ameritech Indiana, GTE, and Sprint-United that they would do so after the trilogy was completed. As of January 20, the Commission had not received any such petitions; hence, it was necessary to open the three subdocket investigations. In Cause Nos. 40785-S1, S-2, and S-3, the Commission acted on its own motion to investigate Ameritech Indiana, GTE, and Sprint-United, respectively. These Orders were directly related to the trilogy of Orders the Commission previously issued in Cause No. 40785.

INDIANA HIGH COST FUND (IHCF)[95]

The intrastate Indiana High Cost Fund (IHCF) is designed to provide financial assistance to certain small LECs with above-average intrastate Non-Traffic Sensitive costs to keep rates affordable. The IHCF assistance is intended to lessen the need for the affected LECs to raise their local rates to recover a portion of these Non-Traffic Sensitive costs. The Indiana High Cost Fund Administrator (Ameritech Indiana) makes two types of payments to qualified small LECs: 1) the End User Offset payments and 2) the regular High Cost Fund payments. Funding companies include all LEC intraLATA Toll Providers with certain types of annual billed intraLATA toll revenues of at least $10 million; plus all interexchange carriers (IXCs), resellers and Alternative Operator Service providers with certain types of annual booked intrastate toll revenues of at least $10 million. For the year ending December 31, 1998, LEC funding companies included Ameritech Indiana, GTE North and United; long-distance funding companies included AT&T, MCI, and Sprint-United.

The IHCF Administrator calculates a total "revenue requirement" for the IHCF (including the total amount of the End User Offsets, the regular High Cost Fund, and Ameritech Indiana's expenses for administering the fund), based upon information provided by the small LECs plus certain previous Commission determinations in Cause No. 37905 about the recipients and the amount of the End User Offset payments. The Administrator then determines each funding company's share of the annual revenue requirement, based upon each company's intrastate carrier common line charge access minutes (both originating and terminating) for the previous year. In 1989, the Commission set a cap on the total IHCF revenue requirement of $1.5 million;[96] on December 18, 1992, the Commission reaffirmed this cap. In November 1997, a recipient company submitted revised data to the IHCF Administrator, which caused a recalculation of the amounts due to certain eligible companies. The revised calculation resulted in a total fund revenue requirement that would exceed the existing $1.5 million cap. Therefore, on December 30, 1997, in Cause No. 40785, the Commission determined that the annual cap should be raised no more than $250,000 to $1.75 million.

In 1998, based upon the revised calculation, the funding companies were billed a total amount of $1,762,833, which included a $12,883 one-time supplemental assessment to resolve some prior billing disputes with an individual funding company. The remaining $1,750,000 was distributed as follows: $2,023 to the IHCF Administrator for administrative expenses; $1,657,209 in "pro rata" payments to 17 different small LECs for the regular High Cost Fund payments;[97] and $90,768 to the eight companies that were eligible

[95] See, e.g., Cause No. 38269, at 53-62 (Ind. URC Oct. 7, 1992) (Phase II Executive Committee Report). See also Cause No. 38269, Finding No. 8, at 25-32, Ordering Para. No. 8 (incorp. Finding No. 8), at 41 (Ind. URC Dec. 18, 1992) (Phase II Order); Cause No. 37905, Attachment 1 (Ind. URC Sept. 19, 1990) (Final Report). See, also, Cause No. 40785.

[96] Cause No. 38269 (Phase I), finding No, 5, at 10, 102 PUR4th 330, Ordering Para. No. 4, at 17 (incorp. Finding No. 5), 102 PUR4th 335 (Ind. URC April 12, 1989).

[97] With the IHCF capped at $1.75 million, the funds are distributed on a pro rata basis to the recipient companies.

for the End User Offset (seven of those companies were also eligible to receive regular High Cost Fund payments).

Section 254 of the TA-96 establishes new procedures and principles under which universal service requirements are to be reviewed by the FCC and state commissions. This Commission has held several technical conferences and hearings in Cause No. 40785 regarding whether and how to modify the Indiana High Cost Fund. A partial list of issues includes Funding, Distribution of Funds, Dispute Resolution, Auditing and the Transition to a New Administrator. Further consideration of possible modifications to the Indiana High Cost Fund has been deferred, pending resolution of several other outstanding universal service matters.[98]

TRANSISTIONAL DEM WEIGHTING FUND

On January 1, 1998, pursuant to FCC Orders FCC 97-158 and 97-159, interstate access charges were reduced. This reduction was accomplished in part by the removal of Dial Equipment Minutes (DEM) weighting factors from the interstate access charge. At present, small ILECs (i.e., those with 50,000 or fewer access lines) benefit from DEM weighting factors because the factors act as multipliers increasing interstate local switching revenue above what it would otherwise be. Although the FCC removed DEM weighting factors from interstate access charges on January 1, 1998, small ILECs have not suffered a decrease in interstate revenues; the FCC also has ordered the creation of a federal Universal Service Fund (USF) to allow small ILECs to recoup revenues that they would have lost as a result of the removal of DEM weighting factors from interstate access charges. From the small ILECs' perspective, this reclassification has no effect on the total interstate revenues that they will receive.

Since it is the Commission's policy to mirror changes in interstate access charges on an intrastate basis, intrastate access charges were reduced on January 1, 1998, by an amount equal to the reduction in the interstate access charge that resulted from the removal of the DEM weighting factors. From the perspective of small ILECs operating in Indiana, this has resulted in a net loss of intrastate access revenues, because at present there is no provision for the creation of a state fund that is analogous to the federal USF. Unless a state USF is created, small LECs could face an estimated net loss of $6 million annually in intrastate access revenues beginning on January 1, 1998.

The Indiana Exchange Carriers Association, a group representing Indiana's small LECs, negotiated a stipulated agreement with eight companies who would contribute to a Transitional DEM Weighting Fund (TDWF) to recoup the lost revenue.[99] The agreement became effective January 1, 1998, and expired on June 30, 1998.

[98] Cause No. 40785, at pp. 20 – 21 (Dec. 30, 1997).

[99] The companies included AT&T, Ameritech Indiana, GTE, Frontier Communications International, Inc., LCI International Telecom, MCI, Sprint and LDDS Worldcom, Inc.

In its June 30, 1998, Order in Cause No. 40785, the Commission determined that the TDWF should continue in effect until February 1, 1999. A series of technical conferences were held in August and September, 1998 to determine whether and how the fund would transfer to a competitively neutral funding mechanism and other administrative issues. On February 1, 1999 the Commission determined that theTDWF would not be converted to a competitively neutral fund until Indiana has a state universal service fund. It was also decided that Smithville Telephone Company would continue as administrator.

3. OPPORTUNITY INDIANA: AMERITECH INDIANA'S REQUEST FOR NEW FLEXIBLE REGULATION

On May 4, 1993, Indiana Bell Telephone Company, Inc., d/b/a Ameritech Indiana, filed an alternative regulation plan with the Commission that was docketed as Cause No. 39705. Theproposal, filed pursuant to I.C. 8-1-2.6, was referred to by the company as "Opportunity Indiana." During the proceeding, Ameritech Indiana reached a series of settlement agreements with various parties that generally resolved and, in some cases, deferred disputed issues. Together these settlement agreements formed the foundation of the Commission's Order that was issued on June 30, 1994. As set forth in the June 30, 1994, Order, Ameritech Indiana received increased regulatory flexibility through December 31, 1997, with respect to the provision of pricing of its telecommunications services.

In anticipation of the expiration of Opportunity Indiana, Ameritech Indiana initiated Cause No. 40849 on May 1, 1997, and, again, sought flexible regulatory authority under I.C. 8-1-2.6. The petition in Cause No. 40849 requested that the Commission decline its jurisdiction, in whole or in part, over Ameritech Indiana's provision of retail and carrier access services as well as adopt alternative regulatory procedures for the company. Recognizing the possibility that the Commission might not be able to issue a final order on a comprehensive replacement regulatory structure by December 31, 1997, Ameritech Indiana also included in its petition a request to extend the existing terms of Opportunity Indiana on an interim basis.[100]

At a prehearing conference on June 18, 1997, the Office of Utility Consumer Counselor (OUCC) and intervening parties, most of whom were parties in the original Opportunity Indiana settlement agreement case, objected to any extension of Opportunity Indiana beyond its scheduled expiration on December 31, 1997. Upon agreement of the parties, a separate hearing was scheduled for July 21, 1997, to receive testimony about continuing Opportunity Indiana in the interim should issues related to a comprehensive replacement plan not be resolved prior to its expiration.

At the July 21, 1997 hearing, Ameritech Indiana presented testimony about continuing Opportunity Indiana on an interim basis. At the conclusion of Ameritech Indiana's case-in-chief, AT&T Communications of Indiana, Inc. (AT&T), pursuant to Indiana Trial Rule 41(B), made a motion to dismiss Ameritech Indiana's request for a temporary extension of Opportunity Indiana.[101] The OUCC and all intervening parties joined in AT&T's motion, which subsequently was granted by the presiding officers. Ameritech Indiana appealed the presiding officers' ruling to the full Commission and a briefing schedule for the parties was established.

[100] Although Ameritech Indiana filed its petition on May 1, 1997, it was not until July 30, 1997, that Ameritech Indiana provided a specific regulatory proposal.

[101] Indiana T.R. 41(B) provides in part that, "After the plaintiff or party with the burden of proof upon an issue, in an action tried by the court without a jury, has completed the presentation of his evidence thereon, the opposing party, without waiving his right to offer evidence in the event the motion is not granted, may move for a dismissal on the ground that upon the weight of the evidence and the law there has been shown no right to relief. The court as trier of the facts may then determine them and render judgment against the plaintiff . . ."

On July 31, 1997, the Commission's Order on Appeal was issued. In part, the Order denied Ameritech Indiana's appeal of the granting of the motion to dismiss, and found that it would be in the public interest for the Commission to investigate an interim regulatory structure for Ameritech Indiana.[102] The Order On Appeal also directed the establishment of an expedited schedule for considering the extent to which the Commission should relax its jurisdiction over Ameritech Indiana on an interim basis, if at all, as of January 1, 1998.

On September 30, 1997, the Commission began three days of hearings to consider what form of interim relief would be appropriate. Ameritech Indiana reiterated its position thatrelief take the form of Opportunity Indiana, although several other parties supported returning the company to traditional rate of return regulation in the interim. Two weeks later, on October 15, 1997, the Commission issued its Preliminary Order on Interim Relief (Preliminary Order).

In the Preliminary Order, the Commission concluded that it would be in the public interest to decline to exercise at least some of its jurisdiction over Ameritech Indiana on an interim basis. However, based upon the evidence, the Commission concluded that it should not take the form of Ameritech Indiana's existing Opportunity Indiana plan. In rendering its preliminary decision, the Commission proposed five requirements that it suggested might form the basis for an interim alternative regulatory framework.[103] The Preliminary Order made it clear that a sufficient record existed upon which to craft an interim regulatory structure. However, it also indicated that the Commission, the parties, and the public would be better served if the parties presented additional testimony in the time remaining before Opportunity Indiana expired.

For purposes of receiving additional testimony, a hearing was scheduled for November 17, 1997, although the hearing did not take place as planned. Instead, in the period between the issuance of the Preliminary Order and the scheduled hearing, several parties filed a variety of legal motions and briefs. Ultimately, after dispensing with these various legal and procedural issues, the Commission was left with very little time within which to issue an order setting forth an interim regulatory plan. Nonetheless, the Commission issued a Final Order on Interim Relief (Final Order) on December 30, 1997, using the testimonial record as it existed at the time that the Preliminary Order was issued.[104]

In addition to adopting the five requirements enumerated earlier, the Commission reasserted its jurisdiction over several areas of Ameritech Indiana's operations. The Final Order required Ameritech

[102] Order on Appeal, pp. 2-3.

[103] Generally, the five requirements proposed to: 1) maintain the existing classification of Ameritech Indiana's services as Basic Local Service (BLS), BLS-Related, and Other; 2) maintain existing tariff structures, formats, and filing requirements; 3) apply the same regulatory requirements to Ameritech Indiana's carrier access services that are applied to all other ILECs; 4) require carrier access services to be submitted to the Commission for approval; and 5) apply the Commission's rules for standards of service (170 IAC 7-1.1, et seq.) and rules for extended area service (170 IAC 7-4, et seq.).

[104] The Final Order was approved by a vote of 4-1. Commissioner Mary Jo Huffman dissented.

Indiana to: 1) apply Customer-Specific Offering requirements previously adopted in Cause No. 38561 to the company's customer-specific, i.e., non-tariffed, contracts; 2) file market performance reports similar to those required of new entrants in the local market; 3) submit reports filed by otherILECs; 4) maintain depreciation records subject to the Uniform System of Accounts; 5) periodically report quality of service indices; 6) fulfill remaining infrastructure investments agreed to in Opportunity Indiana; and 7) decrease its residential and business rates by 4.6 percent.[105]

Ameritech Indiana appealed the Commission's Final Order to the Indiana Court of Appeals (Court).[106] The case is presently pending. In its Notice of Appeal, Ameritech Indiana asserted that the Commission's Final Order, which reduced the company's residential and business rates for basic local service, was without sound evidentiary basis and was contrary to law. The Notice also claimed that the Commission's Final Order was without sound evidentiary basis and was contrary to law when it directed Ameritech Indiana to make infrastructure investments of no less than $150 million through 1999. Customers have not yet benefited from these Commission-ordered rate reductions because of Ameritech Indiana's appeal.

OPPORTUNITY INDIANA II

On January 29, 1999, in Cause No. 40849, Ameritech Indiana filed the second phase of its alternative regulatory plan, Opportunity Indiana II (OI-II). Ameritech Indiana claimed OI-II is needed in light of TA96 and rapidly changing technology. The key elements of the plan include:

- Categorizing all of Ameritech Indiana's retail services in the existing categories (Basic Local Service (BLS), BLS-related, and Other services) and having the ability to shift services out of the first two categories based upon a showing that competition exists for a particular service in a particular geographic area. A service would be moved into Other services through a verified submission that two or more telecommunications carriers and/or service providers provide, offer, resell, or have advertised, marketed, or solicited customers for the service within a specified serving area. Reclassification would automatically occur for BLS-related services and multi-line business basic exchange; however, the Commission could commence an investigation, if it is warranted. BLS services would not move to the Other services category until the Commission had reviewed the filing and concluded its investigation, which must be initiated within 20 days.
- Imposing a price ceiling on basic exchange services until January 1, 2002. After January 1, 2002, Ameritech Indiana may seek approval to increase BLS prices pursuant to the 30-day filing procedure.

[105] Two areas were exempted from the rate decrease because of regulatory developments. They were: 1) coin services, which largely have been deregulated by federal order and are the subject of proceedings in Cause No. 40830; and 2) Centrex services, which also largely have been deregulated and generally fall within Ameritech Indiana's "other" services category—the least stringently regulated of Ameritech Indiana's service categories.

[106] Ameritech Indiana's case was docketed by the Court as Cause No. 93A02-9801-EX-22.

After January 1, 2002, Ameritech Indiana may seek approval to increase BLS-related prices through a new 45-day filing procedure. Unlike the 30-day filing procedure, which has no date certain of approval or disapproval, the 45-day filing procedure must be approved or disapproved within 45 days. If no action is taken, the request would be considered approved on the 46th day. For Other services, price increases or decreases take effect on one-day's notice and Ameritech Indiana may utilize target marketing based on geography, type of business (e.g., restaurants) , or type of customers (e.g., large-volume)

- Continuing the flat rate pricing option for residential and business basic exchange service for the same local calling areas that are currently available. Ameritech Indiana may seek a usage based pricing structure for data traffic before or after January 1, 2002.
- Enhanced infrastructure commitments for certain advanced services. Specifics included waiving of normal installation charges for deployment of fiber optic facilities to every interested school, hospital, or major government center until December 31, 2003; given certain regulatory conditions, providing ADSL or ADSL-like high speed access transport in any central office location which lacks the service once a minimum threshold of 250 customers are committed to contracting for the service in that central office and an interested Information Service Provider to provision the access is identified until December 31, 2005; providing ISDN deployment to all of Ameritech Indiana's central offices; upgrading specified geographical location to include SONET ring capabilities by December 31, 2002; and upgrading Ameritech Indiana's seven remaining analog 1AESS offices to digital offices by December 31, 2006.
- Ameritech Indiana would continue the obligation of $5 million to the Corporation for Educational Communications (CEC) through June 30, 2000. $10 million of additional funding for the CEC would be provided from July 1, 2000 through June 30, 2003.
- Committing to continue to serve as an Eligible Telecommunications Carrier (ETC) and a commitment to not petition to withdraw from ETC status in any exchange prior to January 1, 2002.
- Enhancement of the Lifeline/Link-up service program for eligible customers through a commitment to waive any non-recurring service connection charges not covered by Universal Service Funding until January 1, 2004.
- Until January 1, 2002, Ameritech Indiana would develop and disseminate educational information on issues that are a concern to consumers such as slamming and cramming. Ameritech Indiana would provide, upon request and at no additional charge, a clear written statement describing how a customer's proprietary records and information would be used, maintained, or disclosed. Ameritech Indiana would also develop a clear, written Privacy Pledge to address various customer concerns about privacy.

Ameritech Indiana's OI-II request is currently pending the outcome of its rate conformance proceeding in Cause No. 40785-S1, which was initiated on January 20, 1999.

INFRASTRUCTURE AND EDUCATION INVESTMENTS

On June 30, 1994 this Commission approved a Settlement Agreement proposed by several of the parties in Cause No. 39705 (Opportunity Indiana). One of the terms accepted as part of the Settlement Agreement, found in Paragraph 10(b), concerned Ameritech Indiana's expenditure of $120 million for improvements to its infrastructure, specifically for three categories of customers: schools, hospitals, and major government centers. This term was agreed to with the express understanding that the value of the investments would not be subject to recovery through rates and charges.

On May 1, 1997, Ameritech Indiana filed its petition, in Cause No. 40849, seeking a new alternative regulatory plan, Opportunity Indiana II, to replace Opportunity Indiana. During the course of the hearings in this cause, the Commission heard testimony about the extent of Ameritech Indiana's compliance with the terms of Opportunity Indiana over the preceding three years. At the hearing on September 30, 1997, Ameritech Indiana's witness Cubellis testified that through March 1997, the company had spent $14.8 million toward it's Paragraph 10(b) commitments. On redirect, he indicated that through June 1997 the correct total was $15.6 million. Based on that testimony, the Commission found in its December 30, 1997 Order that Ameritech Indiana had failed to meet its Paragraph 10(b) infrastructure investment obligations of $20 million per year. The Commission directed Ameritech Indiana to file a report by April 3, 1998, outlining its compliance with the infrastructure provisions set forth in the original Opportunity Indiana case.

Ameritech Indiana filed an Infrastructure Report with the Commission on April 3, 1998, in which it reported having spent $18.75 million supporting the Corporation for Educational Communication and $17.8 million for the direct broadband infrastructure to schools, hospitals and government centers in the form of fiber optics. Ameritech Indiana further claimed that it had invested $8.9 million in infrastructure that was associated with Opportunity Indiana, $28.7 million in digital switching equipment, and $24.7 million in digital inter-switching office transport facilities used by the targeted customer segments. Thus, Ameritech Indiana claimed that the total infrastructure expenditures for the Opportunity Indiana infrastructure commitment totaled $79.4 million, not the $15.6 million that had been reported by Ameritech Indiana during the public hearing in Cause No. 40849 in June 1997.

In order for the Commission to evaluate Ameritech Indiana's revised claims, the Commission issued a Docket Entry on June 16, 1998 ordering Ameritech Indiana to provide, within thirty days, supplemental information in nine subject areas. The Company filed a public version of its response on July 16, 1998. Confidential portions of the response were withheld pending a finding of confidentiality. A hearing was held on October 29, 1998 at which the presiding officers found that the allegedly confidential portions of Ameritech Indiana's Response were in fact confidential and would be treated as such by the Commission. The confidential portions of the Response were then provided to the Commission.

After completing a thorough review of the Infrastructure Report and the Supplemental Response, on April 28, 1999, the Commission issued an order. The Commission found:

> Having allowed Ameritech Indiana ample opportunity to provide an accounting of its infrastructure investments in satisfaction of its obligations pursuant to Paragraph 10(b) of the Opportunity Indiana Settlement Agreement, and having found its explanations for claiming more than its direct broadband investments unpersuasive or otherwise lacking, we find its actual 10(b) expenditures to be no more than $17.8 million through the end of 1997, or some $62 million less than promised... Accordingly, Ameritech Indiana should spend the balance of the $120 million total Opportunity Indiana infrastructure investment commitment, which balance stood at $102.2 million at the beginning of 1998, and should within one month from the date of this Order file with this Commission its specific plan for doing so. Ameritech Indiana should confer with the other settling parties to devise an expenditure plan.[107]

On May 18, 1999 Ameritech Indiana filed its Verified Petition for Reconsideration and Rehearing of April 28, 1999 Order. On May 28, 1999 Ameritech Indiana filed its Report on Meeting with Settling Parties and Intelenet Commission and on June 3, 1999 the Office of Utility Consumer Counselor and Residential Customers filed their Joint Response to Ameritech Indiana's Report on Meeting with Settling Parties and Intelenet Commission. The case is pending awaiting review and determination by the Commission.

FREE SUBSCRIPTION PROGRAM RESULTS

In order to advance universal service, Opportunity Indiana provided that Ameritech Indiana would waive certain nonrecurring charges associated with initiating telephone services (customer deposit, line connection charges, and service order charges) for new customers living in geographic areas with below-average telephone service penetration rates, during a preselected 30-day period each year (through 1997). Ameritech Indiana has offered the free subscription program five times, in November of 1994, 1995, 1996, 1997 and 1998. The results of the offerings are as follows.

November 1994

The initial waiver was offered to 42,000 potential customers in November 1994 and attracted 1,516 new subscribers (approximately 3.5 percent of potential subscribers). There were no additional eligibility requirements beyond this residency requirement, such as household or personal income, receipt of public assistance income, etc.

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[107] Cause No. 40849, In the Matter of the Petition of Indiana Bell Telephone Company, Incorporated d/b/a Ameritech Indiana for the Commission to Decline to Exercise in Whole or in Part Its Jurisdiction Over, and to Utilize Alternative Regulatory Procedures for, Ameritech Indiana's Provision of Retail and Carrier Access Services Pursuant to I.C. 8-1-2.6 *et seq.*, April 28, 1999, at 5.

Six months after the free subscription was offered for the first time (May 31, 1995), 360, or 24 percent, of the 1,516 customers that initially received local service under the plan either discontinued service or were disconnected by Ameritech Indiana. Customers who discontinued service gave the following reasons: moving, no further use, could not afford or disaster. Ameritech Indiana disconnected customers for non-payment, abandoned service or fraud. Eighteen months after these customers started service under the plan (May 31, 1996) 1,065 customers (70 percent) no longer had local telephone service. As of May 31, 1997 (two and one half years after being connected), only 280 customers (18.45 percent) remained on the network. By April 30, 1998, 253 (16.67 percent) remained on the network.

November 1995

Free subscription was again offered in November, 1995, which resulted in 237 new subscribers. Through May 31, 1996, 94 (40 percent) of those customers either discontinued service or were disconnected by Ameritech Indiana. As of May 31, 1997, 67 customers (28.26 percent) remained on the network. As of April 30, 1998, 61 customers (25.74 percent) remained on the network.

November 1996

Free subscription was offered for a third time in November 1996, which resulted in 175 new subscribers. Through May 31, 1997, 46 (26 percent) of those customers either discontinued service or were disconnected by Ameritech Indiana; 129 (73.71 percent) remained on the network. As of April 30, 1998, 103 customers (58.86 percent) remained on the network.

November 1997

Free subscription was offered for a fourth time in November 1997, which resulted in 532 new subscribers. Through April 30, 1998, 125 (23.50 percent) of those customers either discontinued service or were disconnected by Ameritech Indiana. As of April 30, 1998, 407 (76.50 percent) customers remained on the network.

November 1998

Free subscription was offered for a fifth time in November 1998, which resulted in 238 new subscribers. Through July 1999, 104 (43.7 percent) of those customers either discontinued service or were disconnected by Ameritech Indiana. As of July 1999, 134 (56.3 percent) customers remained on the network.

QUALITY OF SERVICE

In its December 30, 1997, Order in 40849, the Commission found that Ameritech Indiana should begin reporting quality of service data on a quarterly basis. Reporting is to be based upon quality of service standards applicable to all telephone companies in Indiana that were adopted by the Commission in 1979![108] (170 IAC 7-1.1 et.seq.) On June 9, 1998, the initial "Review of Service Quality Results for Ameritech Indiana" was presented to the Commission. Since that initial filing, the data indicate that Ameritech Indiana is meeting or exceeding 8 out of 10 of the 1979 Quality of Service Standards as shown in Table 8:

Table 8: Ameritech Indiana - Quality of Service Results

CATEGORY	IURC STANDARD	2nd qtr 1999	1st qtr 1999	4th qtr 1998	3rd qtr 1998	2nd qtr 1998
Installation intervals	90% of requests for primary service satisfied within 5 days	98.4%	98.3%	98.6%	98.5%	98.5%
Repair reports per 100 access lines	Trouble reports will not exceed 10 reports per 100 total lines	1.8	1.6	1.5	2.1	2.2
Out of service carried over [109]		58.6%	51.6%	55.0%	66.0%	59.2%
Out of service cleared within 24 hours	Service repair practices shall be designed to restore service within 24 hours	90.7%	93.7%	89.6%	77.4%	90.5%
Repair answer	80% of all calls answered within 20 seconds	82.6%	86.8%	92.0%	85.3%	81.5%
Business office answer*	80% of all calls answered within 20 seconds	41.1%	44.1%	64.2%	29.8%	72.0%
Operator Answer Info/Intercept	All calls answered within average of 7.7 seconds	5.4	5.4	5.4	5.4	5.5
Toll/Assist operator answer	All calls answered within average of 3.3 seconds	2.9	2.9	2.9	2.8	2.7
Dial tone speed	95% in 3 seconds	99.5%	97.8%	99.5%	99.8%	99.3%
Trunks	97% no blockage	99.5%	99.1%	99.5%	98.8%	97.9%
Local call completion	95% completion	99.9%	99.9%	99.9%	99.9%	99.9%

* Below the Quality of Service Standards

As part of the ongoing investigation in Cause No. 40785 and pursuant to the Commission's September 16,1998, Order in that Cause, Paul Hartman, as the assigned commission agent, began investigating the need for a change in the telephone service quality standards, which were last amended in 1979. The investigation brought industry representatives and other parties together in a work shop environment to see if they could jointly agree on changes. Although full agreement was not possible, the parties nevertheless did an admirable job of working together to present a document that encapsulates all of

[108] Final Order @p. 11.

[109] Ameritech Indiana disputes this result as not being a valid service quality indicator as defined by Administrative Code; however, this specific indicator is required per the Order in Cause No. 40849.

their ideas. Alan Matsumoto of Sprint-United headed up the industry task force, and presented new service quality standards to the Commission at a technical conference on July 26, 1999. Ameritech Indiana, INECA, the OUCC, Sprint-United, and AT&T filed their respective dissents to certain points contained in the proposal.

The Commission plans to review the industry filing, along with the dissenting comments, and begin the rulemaking process, during which all parties will have an opportunity for further input.

4. EXTENDED AREA SERVICE (EAS)

Extended Area Service (EAS) is telephone service that allows persons in a given exchange to place and receive calls from a different exchange without an additional toll charge. Most existing EAS areas have evolved over the years based on community of interest and have been in place for many years. The costs to provide existing EAS services have been included in averaged local rates so there is generally no additional monthly rate charged to customers of the exchange for their toll-free calling areas.[110]

As time passed and communities changed and grew, customers' calling needs also changed and grew. The Commission received increasing numbers of inquiries from telephone customers who were dissatisfied with their toll-free calling areas. Many calling areas did not (and do not) conform to county boundaries, school districts, etc. Many customers were not (and are not) able to call law enforcement or emergency services without incurring toll charges. For a period of time, the IURC had no program to address the needs of these customers, and local exchange telephone companies were not initiating changes in EAS areas. In response to this growing need, the Commission drafted administrative rules establishing a process to implement new EAS, which were approved in 1986 and are found at 170 IAC 7-4, et seq.

The IURC administers these rules, which are designed to provide customers in telephone exchanges the opportunity to determine if toll-free calling will be established between those exchanges. To initiate this process, customers submit a petition (signed by the greater of 10 percent or 100 customers of the exchange) requesting toll-free calling to another exchange. Upon receipt of such petition, the Commission orders the involved local exchange telephone company (or companies) to conduct a study of the calling patterns between the two exchanges. If the results of those studies indicate sufficient calling being made by the customers of the exchanges in accordance with IURC rules, the IURC then orders the telephone companies to conduct studies to determine the costs (capital investment, operating/administrative expenses and lost toll revenues) of establishing toll-free calling between the exchanges. The IURC must review and approve all studies before issuing orders on those studies. The telephone companies are then ordered to ballot the customers of the exchanges by mail to determine if the customers are willing to pay an additional monthly rate to have unlimited toll-free calling between the exchanges. A simple majority of the voting customers determines if the toll-free calling is established for the entire exchange.

The EAS program has met with considerable customer interest; however, a limited number of EAS petitions have been implemented. Since 1986, the Commission has processed 200 petitions, with only 36 having been implemented. There are a variety of reasons why petitions fail. Many times, studies of the calling patterns do not meet the program's minimum criteria, which would indicate insufficient calling and

[110] GTE North, Inc. has a separate EAS cost recovery component called an EAS Adder that was initially approved in the Final Order in Cause No. 36452 on December 16, 1981. The EAS Adder was limited to existing customers ("grandfathered") on July 22, 1992, because of unanticipated results when the EAS Adder was applied in the development of cost of service studies under the Commission's EAS Rules.

lack of real community of interest. Other times, the cost of establishing the service is high, and customers vote against it. To minimize rate and revenue impact on the customers and the utilities, the rules allow for recovery of EAS costs over a five-year period. Customers who live in the exchanges where EAS is implemented pay a monthly surcharge on their bills for five years to cover the cost of establishing the EAS. The EAS cost components (capital investment, operating/administrative expenses and lost toll revenues) included in the process can be expensive. Moreover, many of the exchanges involved in the process are very small, and the resulting cost per customer is high. These factors can lead to the requested service being cost-prohibitive.

In August of 1999, the Commission published a proposed rule in the *Indiana Register* that would repeal 170 IAC 7-4-1 through 7-4-7 of the current EAS program. The current rule that permits local exchange companies to submit alternative EAS proposals for consideration would be retained [170 IAC 7-4-8]. On September 2, 1999, oral comments were received on the rulemaking. The Commission will accept written comments on the rule until October 1, 1999. Interested parties may then file reply comments to the written comments until October 15, 1999.

GTE Local Calling Plan

In 1996, GTE North, Inc. implemented an optional EAS calling plan on a trial basis. Following the success of GTE's optional EAS calling plan trial, on December 29, 1998, GTE submitted a tariff request via the Commission's 30-day filing procedure to make GTE's Local Calling Plan (LCP), permanent. Over the objections of AT&T, which argued the filing was discriminatory and anti-competitive, the Commission approved GTE's LCP for fourteen Indiana exchanges on March 31, 1999.[11] The LCP uses 7-digit dialing, is accounted for as local service, and is available to both business and residence service classes with the following exceptions: Residence 2 and 4-party service, Public or Semi-public service, Customer-Owned Pay Telephone Service or Foreign Exchange Service.

The GTE Local Calling Plan consists of the following options:

Community Calling Plan--provides flat rate calling from home to current EAS exchanges. Calls to other designated exchanges are rated at LCP rates ($0.07/minute).

Community Plus Plan--provides flat rate calling from home to current EAS exchanges and from home to GTE specified exchanges. Calls to other designated exchanges are rated at LCP rates ($0.07/minute).

Premium Calling Plan--provides flat rate calling from home to current EAS exchanges and from home to GTE specified exchanges. The plan also includes a provision for a Block of Time to other designated

[11] The exchanges are: Albion, Dunkirk, Farmland, Galveston, Kimmel, Lucerne, Lynn, Modoc, Redkey, Ridgeville, Royal Center, Walton, Wawaka and Winchester.

exchanges. The Block of Time provides 15-Hours of Calling Minutes for Residential Service and 20 Hours of Calling Minutes for Business Service within the specified LCP calling area.

The additional monthly LCP charge is as follows for each class of service:

	Community Calling	Community Plus	Premium Calling
Residential One Party:	$1.50	$5.00	$25.00
Residential Key:	$1.50	$5.00	$25.00
Business One Party:	$1.50	$10.00	$35.00
Business Trunk:	$1.50	$10.00	$35.00

With the Local Calling Plan, GTE is offering an optional Local Call Detail Billing. Local Call Detail Billing includes date of call, telephone number called, time of call and number of minutes. Local Call detail may be requested with the initial establishment of LCP. When requested subsequent to the establishment of the LCP, the customer must request it at least 30 days prior to the period for which the detail is desired. The rate for Local Call Detail Billing is $1.50 per month plus $.10 per each bill page.

Lake County EAS

In July 1996, the Commission received several petitions signed by the residents of the Lowell and Crown Point communities in Lake County, requesting extended area service to various other communities in Lake County.[112] These petitions were processed under the Rules for Extended Area Service (170 IAC 7-4 et seq.), and dismissed on November 13, 1996, because the petitioning exchanges did not meet the Community of Interest requirements of the Rules. On December 2, 1996, the petitioning exchanges filed a Request for Reconsideration of the Commission's actions, claiming that the toll calling usage study was inaccurate.

On March 26, 1997, the Commission ordered, in Cause Nos. 40528-EAS, 40529-EAS, 40531-EAS, 40535-EAS, and 40537-EAS through 40545-EAS, that an additional toll calling usage study be prepared for each request within 120 days. In the orders, the Commission noted that "[w]hile the Commission may consider alternatives under [170 IAC 7-4-8], we note that no such alternative has been presented by any party to this Cause for consideration at this time."

On June 4, 1997, Ameritech Indiana presented an alternative calling plan to the Commission's Director of Consumer Affairs. The alternative included establishing local calling among all the Ameritech

[112] See Cause Nos. 40528-EAS, 40529-EAS, 40531-EAS, 40532-EAS, 4053-EAS, 40537-EAS through 40545-EAS.

Indiana exchanges and rates for such calling scope that were in the mid-range between two existing rate classifications [Rate Class 2 and Rate Class 3].

The Consumer Affairs Division of the Commission received approximately 3500 telephone calls and letters from Lake County customers individually regarding the plan. As of January 28, 1998, 81 percent of these customers were in favor of the plan, while 15 percent were opposed. In addition, the Director of Consumer Affairs attended 4 public meetings regarding the plan during the Fall of 1997: Crown Point, Highland, East Chicago and Gary.

On June 29, 1998, the Commission approved Ameritech Indiana's alternative EAS plan that included establishing local calling among all the Ameritech Indiana exchanges in Lake County and rates for this calling scope. On February 10, 1999 the Commission approved Ameritech Indiana's tariff for a new rate (Zone L) for the exchanges in Lake County. The Lake County EAS plan was implemented at that time.

5. NUMBER ADMINISTRATION

The TA-96 mandated in Section 251(e)(1) that the FCC "create or designate one or more impartial entities to administer telecommunications numbering and to make such numbers available on an equitable basis." In response to the mandate, the FCC released its Local Competition Order 96-333.[113] This order, among other things, addresses the roles that states may take in the administration of the North American Numbering Plan (NANP).

In the NANP, a telephone number consists of a three-digit area code, a three-digit central office (CO) code, and a four-digit line number. Typically, each CO code, or prefix, consists of a block of 10,000 numbers. The implementation of a new area code makes possible the addition of more than 700 three-digit prefixes (or 7 million new phone numbers) that can be used to assign new seven-digit telephone numbers. Until October 1997, Bellcore[114] was the entity that had the authority to assign new area codes across the nation and administer the NANP. As part of NANP administration, Ameritech Indiana was responsible for administering the assignment of CO codes for all Indiana local phone companies, cellular providers, paging companies, and alarm companies. Ameritech Indiana also was also responsible for predicting exhaustion and initiating relief of numbers within Number Plan Areas (NPAs), or area codes, within Indiana.

In October, 1997, the FCC named Lockheed Martin to replace both Bellcore as Administrator of the NANP and Ameritech Indiana as the Code Administrator, and to perform the associated duties of numbering administration and area code exhaustion prediction[115]

While the FCC placed number administration and area code exhaustion prediction duties with Lockheed Martin, it gave the option to states to initiate and plan area code relief. If a state does not wish to perform this function, area code relief planning will become the responsibility of Lockheed Martin as the new NANP Administrator (NANPA), although the final approval of any area code relief plan remains under the jurisdiction of state commissions.

The Commission determined that it would be efficient to use Lockheed Martin for initiating and planning area code relief for the State of Indiana, since Lockheed Martin is a neutral third party, allowing it to participate directly in relief efforts with telecommunication carriers and all other interested parties.

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[113] FCC 96-333, Second Report and Order and Memorandum Opinion and Order (Second Report), released August 8, 1996, In the Matters of Implementation of the Local Competition Provisions of the Telecommunications Act of 1996 and Administration of the North American Numbering Plan (NANP).

[114] Authorized by the FCC at divestiture.

[115] FCC 92-372, Third Report And Order and Third Report And Order (Third Report), released October 9, 1997, In the Matters of Administration of the North American Plan, CC Docket 92-237, and Toll Free Service Access Code, CC Docket 95-155.

On April 15, 1999, Lockheed Martin sent a letter to the Commission confirming its new roles as NANPA and CO Code Administrator and providing information about the steps Lockheed Martin was taking to integrate the Commission into NANPA and Local Number Portability operations.

On June 8, 1999, Lockheed Martin sent a letter to the Commission notifying it of the need for NPA relief planning for the 219 area code. Based on the 1999 Central Office Code Utilization Survey (COCUS), the 219 NPA is projected to exhaust its supply of prefix codes in the first quarter of 2001. On July 20, 1999, Lockheed Martin conducted a meeting of representatives of the telecommunication industry to formulate and evaluate area code relief alternatives. On August 20, 1999, the Commission received a letter from Lockheed Martin containing the industry's recommendation of an all service area code overlay as the method of area code relief in the 219 NPA. However, the final determination of the appropriate type of area code relief in northern Indiana lies with the Commission.

The Commission is currently in the process of opening an investigation into area code relief, and the Commission staff is in the process of preparing a petition to the FCC for additional authority to implement number conservation measures in the hopes of delaying or forestalling future NPA exhausts.

6. FINANCIAL AND OTHER INDUSTRY STATISTICS

As can be seen in Appendices 6-A, 6-B and 6-C, the telecommunication services industry in Indiana represents a market with intrastate gross revenues for 1998 of $2.4 billion. This represents a slight decrease in revenues of 2.65 percent from the 1997 level but a 16.83 percent increase over the 1994 level. The compound annual growth rate during the 1994-1998 period was 3.97 percent. LEC intrastate operations accounted for $1.46 billion or 61.77 percent of the telecommunications gross intrastate revenues in 1998. The LEC's share of the total telecommunications industry revenues increased slightly from 1997 to 1998 but remains at a level that is 6.86 percent less than it was in 1994. For more information, refer to Appendices 6-D, 6-E, 6-F, and 6-G.

Facilities-based IXCs accounted for 15.83 percent of the gross intrastate telecommunications services revenues. AT&T Communications' share of the IXC facilities-based intrastate gross revenues amounted to 60.8 percent in 1998, down from 68.8 percent in 1997 and down from 70.6 percent in 1994.

In reports prior to 1997, we were able to segregate the revenues of other telecommunications companies (resellers, alternative operator services, radio common carriers, cellular and mobile). Because of the diversification of services offered, it is no longer possible to classify a company as providing only one type of service. Consequently, in subsequent reports, the revenues for these companies have been aggregated into one total.

As demonstrated by Appendices 6-H and 6-I, Indiana LECs have continued to proceed with modernization programs in their telecommunications networks. As a result of such modernization programs, 92.55 percent of the LECs' access lines are served by fully digital central office (CO) switching equipment; e.g., Northern Telecom DMS100/200 or DMS10 switches. The corresponding portion of access lines served by fully digital CO switching equipment in 1994 was 83.48 percent. The "intermediate" switching technology of electronic analog CO switching equipment; e.g., Western Electric/ATTIS 1AESS and 2AESS switches, is still in use in COs of Ameritech Indiana and serves 270,103 access lines or 7.45 percent of total LEC access lines. In the Voluntary Commitments filed as part of its Rebuttal Testimony in Cause No. 41255, Ameritech Indiana committed to upgrade all remaining analog central offices in its current service territory to digital by December 31, 2006. It is unclear whether Ameritech Indiana intends to stand by those commitments in light of the Supreme Court Ruling[16]. In contrast, all other LECs have replaced their analog and electromechanical switches with fully digital CO switching equipment. Consequently, the proportion of LEC access lines served by electronic analog CO switching equipment dropped from 14.84 percent in 1994 to 7.45 percent in 1998. The "oldest" switching technology, electro-mechanical, has, as of December 31, 1998, been totally phased out of Central Offices in Indiana. An additional benefit of investment in fully

[16] 1999 Ind. LEXIS 548 (July 30, 1999).

digital CO switching equipment has been that the proportion of Indiana LEC access lines served by "equal access" COs increased to 100 percent in 1998 (under "equal access" end-users are able to reach the networks of their preferred IXCs with simplified dialing such as "1+").

7. YEAR 2000 CHALLENGE

Telecommunications, like all utilities, is an essential service. Emergency services, such as E911, international financial transactions, and the internet all are maintained, in part, on the Public Switched Telecommunications Network. The telecommunications network is also very complex. A typical long-distance phone call may pass through three or four telecommunications providers seamlessly. Such importance and overall complexity have forced the entire telecommunications industry, from regulators to telecommunication companies to vendors, to come together, and, if possible, overcome the Year 2000 challenge.

On November 12, 1998, in Cause No. 41327, the Commission opened an investigation into the Year 2000 challenge. The purpose of the investigation is to investigate utilities' capability to deliver safe, reliable, and uninterrupted service notwithstanding problems uncertainties around Year 2000. The Commission asked all parties to reply to a Year 2000 Information Request developed by the Commission.[117] Later, telecommunications carriers also responded to an FCC-developed survey. The surveys inquired about a company's Year 2000 preparations including inventory of Year 2000 devices or programs, assessment, remediation, testing of systems, and contingency plans. The Commission has held two workshops examining Year 2000 issues. A two-day workshop was held March 2 and 3, 1999, in which all issues were examined, and a one-day workshop was held July 13, 1999, in which contingency plans were examined. All local facilities–based telecommunications carriers with over 5000 customers are required to file a contingency plan with the Commission by September 30, 1999.

National agencies such as the National Reliability Interoperability Council and Alliance for Telecommunication Industry Solutions are developing solutions toY2K problems, and a Telecom Year 2000 Forum has been established. In Indiana, the Indiana Telecommunications Association (an association for all telecommunication companies) and the Indiana National Exchange Carriers Association (an association for small companies) each have held workshops to provide information to companies.

Based upon the discussions in the workshops, individual company presentations to the Commission, recent reports prepared for the Senate and the FCC, and surveys the companies submitted to the Commission, the Commission believes the telecommunications industry is working diligently and conscientiously to address the Year 2000 challenge.

[117] The IURC has jurisdiction over numerous telecommunications companies including cellular companies, Alternative Operative Service (AOS) providers, Alternative Local Exchange Companies (ALECs), Incumbent Local Exchange Carriers (ILECs), and Interexchange Carriers (IXCs), all of which total over 500 companies. Although all these companies are important, the Commission has focused its attention on local exchange companies such as Ameritech Indiana and GTE and facilities-based alternative local exchange companies. These companies are responsible for emergency services such as E911.

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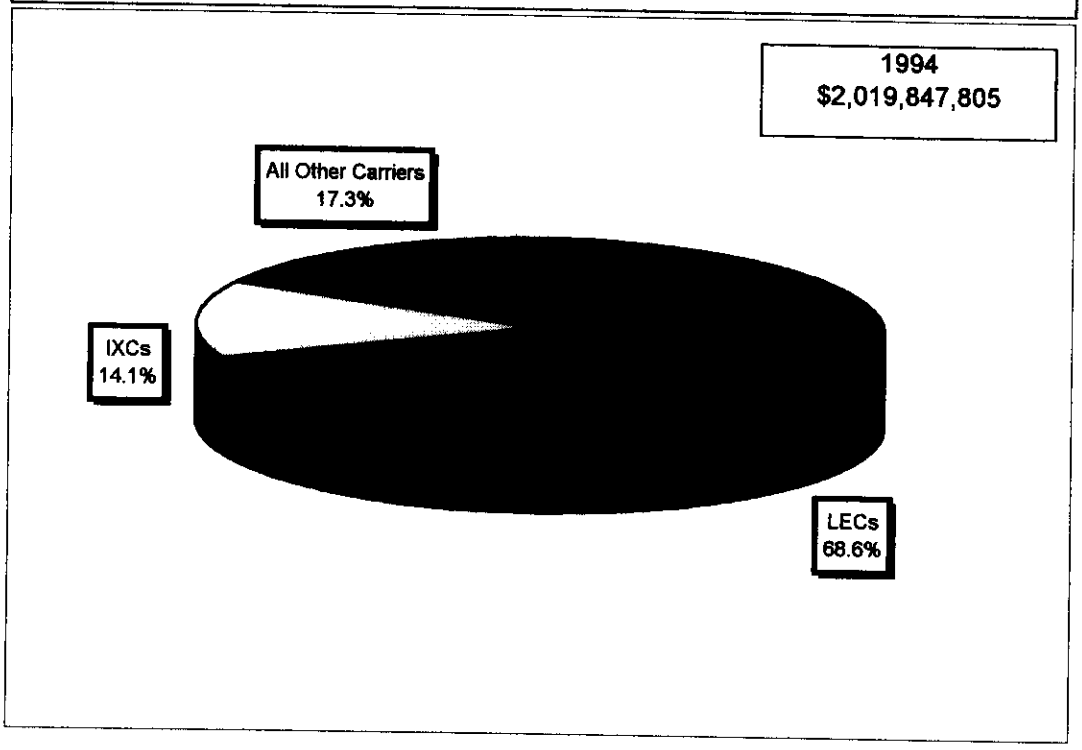
LIST OF ACRONYMS

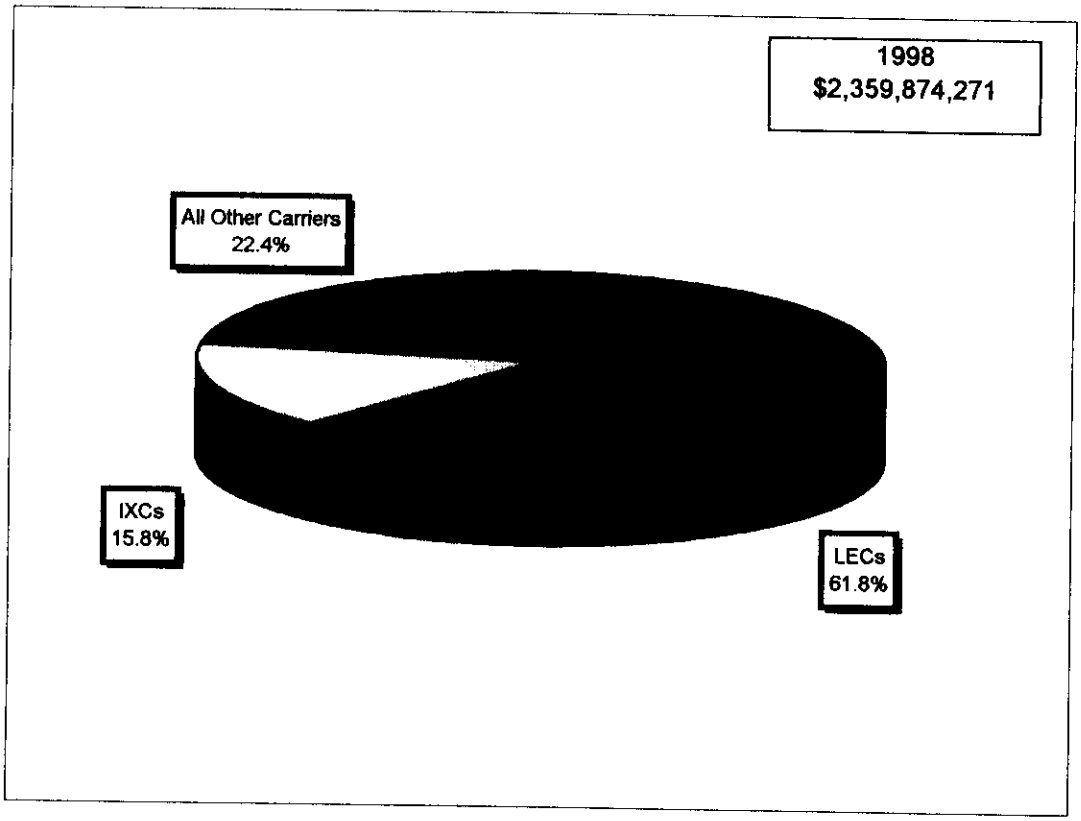
ACT ..... Act or Telecommunications Act of 1996
ADSL ..... Asymmetric Digital Subscriber Line
ALEC ..... Alternative local exchange carrier (synonymous with CLEC)
ARMIS ..... FCC Automated Reporting Management Information System
AT&T ..... AT&T Communications, Inc.
BLS ..... Basic Local Service
CBT ..... Cincinnati Bell Telephone Company
CDUC ..... Connecticut Department of Public Utility Control
CEC ..... Corporation for Educational Communications
CLEC ..... Competitive Local Exchange Carriers (synonymous with ALEC)
CMRS ..... Commercial Mobile Radio Service
CO ..... Central Office
COCUS ..... Central Office Code Utilization Survey
Commission ..... IURC or Indiana Utility Regulatory Commission
CPUC ..... California Public Utilities Commission
CTA ..... Certificate of Territorial Authority
DEM ..... Dial Equipment Minutes
EAS ..... Extended Area Service
ETC ..... Eligible Telecommunications Carrier
FCC ..... Federal Communications Commission
GTE ..... GTE North, Inc.
IHCF ..... Indiana High Cost Fund or High Cost Fund
ILEC ..... Incumbent local exchange carrier
INECA ..... Indiana Exchange Carrier Affiliation
IPA ..... Indiana Payphone Association
ISDN ..... Integrated Services Digital Network
ISP ..... Internet Service Provider
IURC ..... Indiana Utility Regulatory Commission or Commission
IXC ..... Interexchange carrier
LCP ..... Local Calling Plan
LEC ..... Local exchange carrier
LRN ..... Location Routing Number
LTNP ..... Long-Term Telephone Number Portability
MCI ..... MCI Telecommunications Corporation
MSA ..... Metropolitan Statistical Area
NANP ..... North American Numbering Plan

NANPA	North American Numbering Plan Administrator
NPA	Number Plan Area
OI-II	Opportunity Indiana II
OSS	Operational Support Systems
OUCC	Indiana Office of the Utility Consumer Counselor
POTS	"Plain Old Telephone Service" (synonymous with BLS)
PUCO	Ohio Public Utilities Commission
RBOC	Regional Bell Operating Company
RCC	Radio Common Carrier
SBC	SBC Communications, Inc.
SNET	Southern New England Telephone
SONET	Synchronous Optical Network
Sprint-United	United Telephone
TA-96	Telecommunications Act of 1996 or Act
TCG	TCG Indianapolis
TDWF	Transitional DEM Weighting Fund
TELRIC	Total element long-run incremental cost
Time Warner	Time Warner Communications of Indiana, L.P.
UNE	Unbundled Network Elements
USF	Federal Universal Service Fund
WATS	Wide Area Telephone Service
XDSL	Digital Subscriber Line services

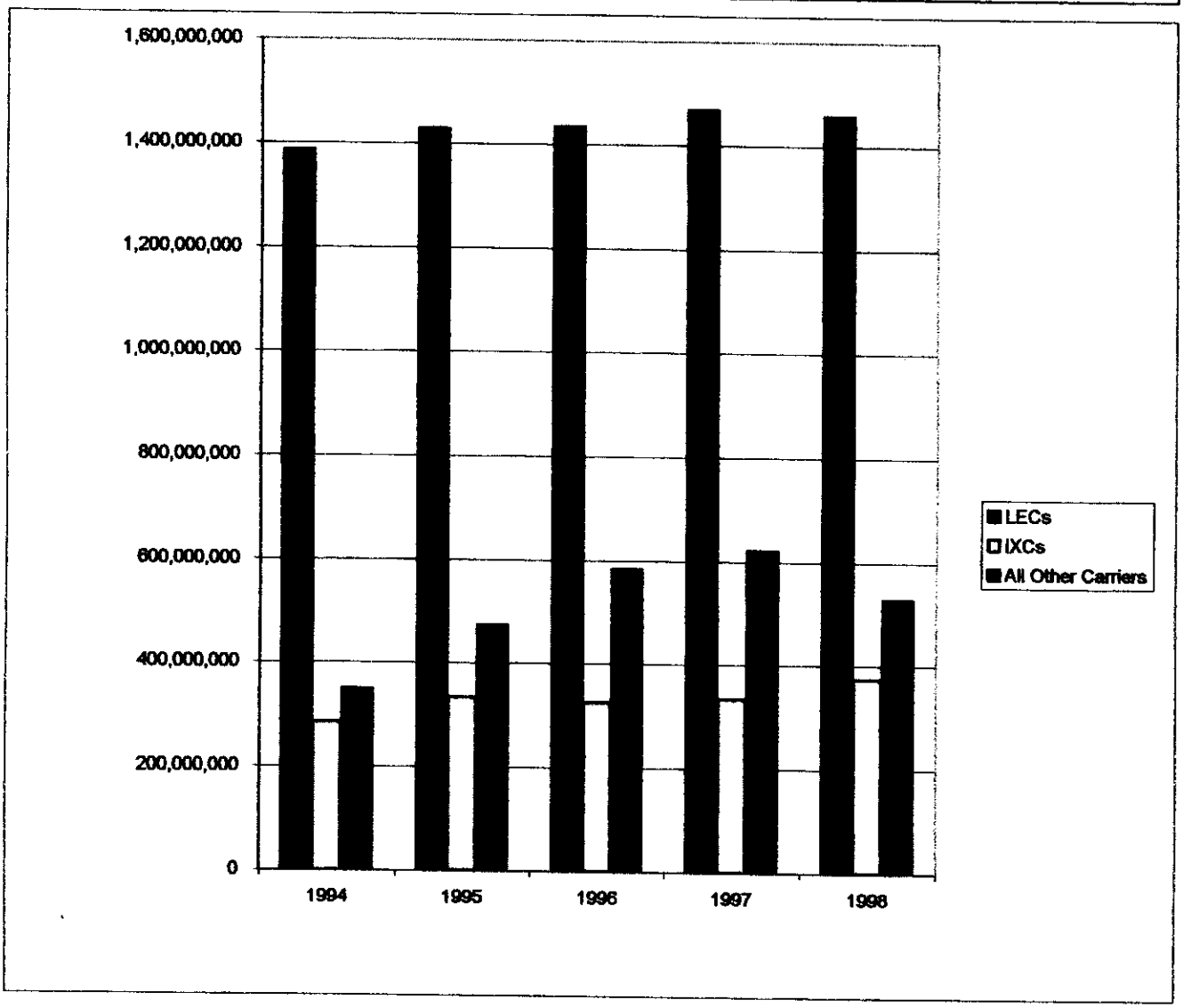
LIST OF APPENDICES

Intrastate Revenues
1994 & 1998





Intrastate Revenues
Industry Comparison



	1994	1995	1996	1997	1998
LECs	1,386,196,321	1,428,747,275	1,434,165,722	1,468,676,736	1,457,793,912
IXCs	284,913,121	333,711,341	325,425,744	334,206,748	373,680,917
All Other Carriers	348,738,363	473,869,405	583,612,955	621,303,462	528,399,442
Total	$ 2,019,847,805	$ 2,236,328,021	$ 2,343,204,421	$ 2,424,186,946	$ 2,359,874,271

Source: Indiana Utility Regulatory Commission Fee Billing Reports

APPENDIX 6-C

TELECOMMUNICATIONS INTRA-STATE REVENUES

INCUMBENT LOCAL EXCHANGE CARRIERS (ILECs)	1994	1995	1996	1997	1998	COMPOUND ANNUAL RATE
AMERITECH CORP.	$808,475,239	$828,960,520	$806,520,926	$821,650,020	$875,483,401	2.01%
BLOOMINGDALE HOME TEL. CO.	137,111	142,031	180,321	147,361	162,857	4.40%
CAMDEN TEL. CO.	899,859	700,499	764,957	836,209	308,134	-23.50%
CENTURY TELEPHONE OF CENTRAL IN. (Formerly Central Indiana Telephone Co.)	1,239,812	2,418,462	1,766,411	2,015,083	887,939	-8.01%
CENTURY TELEPHONE OF ODON, INC. (Formerly Odon Telephone Co.)	762,459	1,196,997	914,710	858,357		-100.00%
CINCINNATI BELL TEL. CO.	2,023,436	2,084,110	2,191,546	2,629,855	2,409,828	4.47%
CITIZENS TEL. CORP.	974,921	979,157	1,062,917	1,095,979	1,067,791	2.30%
CLAY COUNTY RURAL TEL.	4,735,364	5,023,313	6,027,976	5,403,836	5,202,850	2.38%
COMMUNIC. CORP. of IN.	4,702,933	5,106,620	5,492,026	5,692,394	6,233,434	7.30%
COMMUNIC. CORP. of S. IN.	1,060,464	1,115,303	1,115,146	1,160,800	1,223,528	3.64%
CONTEL of the SOUTH, INC	3,429,365	3,586,639	3,673,620	3,784,623	3,114,621	-2.38%
CRAIGVILLE TEL. CO.	379,882	368,265	397,667	443,613	482,276	6.15%
DAVIESS-MARTIN RURAL TEL. CO.	1,234,797	1,270,774	1,419,616	1,588,670	1,523,884	5.40%
FRONTIER COMM. of IN	976,365	899,523	1,006,347	898,290	1,039,501	1.58%
FRONTIER COMM. of THORNTOWN	951,599	916,365	956,723	915,211	950,322	-0.03%
GEETINGSVILLE TEL.	212,950	215,326	222,608	233,670	249,312	4.02%
GTE INDIANA (CONTEL)	73,119,961	75,221,759	77,232,663	79,515,216	66,725,934	-2.26%
GTE NORTH	339,646,770	350,953,117	367,692,592	379,502,090	327,352,038	-0.92%
HANCOCK RURAL TEL. CO.	2,466,003	2,634,691	2,823,102	3,330,247	3,187,872	6.63%
HOME TEL. CO.	1,134,322	1,139,716	1,269,030	1,284,874	1,389,834	5.21%
HOME TEL. CO. of PITTSBORO	971,244	1,022,678	1,115,954	1,170,980	1,271,796	6.97%
LIGONIER TEL. CO.	1,241,229	1,229,044	1,243,498	1,358,335	1,351,391	2.15%
MERCHANTS & FARMERS TEL.	446,455	472,458	485,782	582,936	509,318	3.35%
MONON TEL. CO.	790,450	797,722	886,650	900,377	929,080	4.12%
MULBERRY COOP. TEL. CO.	674,591	699,877	723,774	803,058	862,042	6.32%
NEW LISBON TEL. CO.	344,082	349,250	355,542	344,465	340,233	-0.28%
NEW PARIS TEL. CO.	1,113,933	1,035,040	1,190,611	1,181,427	1,103,161	-0.24%
NORTHWESTERN IN. TEL. CO.	5,501,987	5,789,153	6,949,774	7,260,427	7,156,848	6.79%
PERRY-SPENCER RURAL COOP.	2,302,388	2,762,866	2,501,312	2,857,694	3,181,937	8.42%
PULASKI-WHITE RURAL COOP.	757,364	784,820	870,708	922,069	992,404	6.99%
ROCHESTER TEL. CO.	3,877,000	2,602,913	2,838,294	2,987,631	2,957,652	-6.54%
S&W TEL. CO.	162,055	180,328	188,145	188,844	55,376	-23.54%
SMITHVILLE TEL. CO	8,890,799	9,678,018	11,759,380	12,357,917	13,078,533	10.13%
S.EASTERN IN. RURAL TEL.	636,974	671,220	1,658,959	1,955,799	2,126,124	35.17%
SUNMAN TEL. CO.	1,168,155	1,414,518	1,479,892	1,647,665	1,652,533	9.06%
SWAYZEE TEL. CO.	525,380	520,960	512,225	480,457	510,054	-0.74%
SWEETSER TEL. CO.	352,183	1,073,284	1,155,699	1,161,223	1,152,474	34.50%
TIPTON TEL. CO.	1,814,584	2,008,876	2,043,888	2,063,933	3,190,441	15.15%
TRI-COUNTY TEL. CO.	1,534,814	1,544,854	1,702,375	1,828,538	2,909,879	17.34%
UNITED TEL. CO of IN.	102,724,718	107,397,264	109,991,886	111,621,017	111,390,060	2.05%
WASHINGTON CTY. RURAL COOP	908,942	962,905	1,018,366	1,134,377	1,168,873	6.49%
WEST POINT TEL. CO.	374,682	276,263	299,317	325,823	327,550	-3.31%
YEOMAN TEL. CO.	518,700	539,777	462,767	555,344	580,777	2.87%
ILECs TOTAL	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
INTEREXCHANGE CARRIERS (IXCs)	1994	1995	1996	1997	1998	COMP ANNUAL RATE
AT&T COMMUNICATIONS of IN.	$201,262,606	$227,072,836	$227,917,982	$229,946,371	$227,194,419	3.08%
CONSOLIDATED COMM. TELECOM SVCS. (1997 figure is estimated)	2,592,418	823,975	1,494,795	1,793,754		-100.00%
DIVERSIFIED COMMUNICATIONS, INC					60,064	
LCI INTERNATIONAL TELECOM CORP.	8,396,732	9,617,509	46,370	55,644	10,358,107	5.39%
MCLEODUSA TELECOMMUNICATIONS SERVICES, INC.				15,863	2,374,864	249.79%
MCI WORLDCOM TELECOMMUNICATIONS CORP.	50,753,440	68,512,763	62,263,635	61,951,562	82,030,512	12.75%
QWEST TELECOMMUNICATIONS, INC.					299,004	
SPRINT COMMUNICATIONS CO. LTD. (1997 figure is estimated)	21,250,468	23,690,890	28,910,920	34,693,104	33,637,518	12.17%
TCG INDIANAPOLIS					1,448,410	
US XCHANGE OF INDIANA, L.L.C.					1,403	
WORLDCOM NETWORK SERVICES, INC. (1996 & 1997 figures are estimated)	657,457	3,993,368	4,792,042	5,750,450	16,276,616	123.06%
IXCs TOTAL	$284,913,121	$333,711,341	$325,425,744	$334,206,748	$373,680,917	7.02%
ALL OTHER TELECOMMUNICATIONS CARRIERS TOTAL	$348,738,363	$473,869,405	$583,612,955	$621,303,462	$528,399,442	10.95%
ALL TELCO OPERATIONS TOTAL	$2,019,847,805	$2,236,328,021	$2,343,204,421	$2,424,186,946	$2,359,874,271	3.97%

RATE OF RETURN DATA - NINE LARGEST TELEPHONE COMPANIES

COMPANY	1993	1994	1995	1996	1997
AMERITECH INDIANA					
Rate Base	*	*	*	*	1,597,283,000
Net Operating Income	*	*	*	*	316,498,000
Rate of Return	*	*	*	*	19.81%
CONTEL of the SOUTH					
Rate Base	$10,376,000	$10,721,000	$10,699,000	13,986,000	14,321,000
Net Operating Income	$764,000	$948,000	$1,487,000	912,000	1,247,000
Rate of Return	7.36%	8.84%	13.90%	6.52%	8.71%
COMMUNIC. CORP. of IN					
Rate Base	$16,930,296	$16,706,225	$17,657,643	18,672,155	18,639,423
Net Operating Income	$1,926,020	$2,068,928	$2,034,041	2,309,426	2,362,879
Rate of Return	11.38%	12.38%	11.52%	12.37%	12.68%
GTE INDIANA (CONTEL)					
Rate Base	$143,215,000	$136,528,000	$139,882,000	141,951,000	138,406,000
Net Operating Income	$28,540,000	$23,426,000	$27,435,000	29,500,000	37,827,000
Rate of Return	19.93%	17.16%	19.61%	20.78%	27.33%
GTE NORTH					
Rate Base	$813,074,000	$806,403,000	$792,910,000	874,852,000	854,105,000
Net Operating Income	$97,243,000	$89,257,000	$120,922,000	116,955,000	133,158,000
Rate of Return	11.96%	11.07%	15.25%	13.37%	15.59%
NORTHWESTERN IN. TEL. CO.					
Rate Base	$10,426,893	$11,002,655	$14,777,105	16,700,421	18,273,662
Net Operating Income	$1,145,899	$1,370,012	$1,285,278	1,284,349	2,790,295
Rate of Return	10.99%	12.45%	8.70%	7.69%	15.27%
ROCHESTER TEL. CO.					
Rate Base	$4,894,061	$5,177,051	$5,299,048	6,818,509	6,891,524
Net Operating Income	$1,080,310	$1,157,932	$1,355,113	1,306,038	1,176,885
Rate of Return	22.07%	22.37%	25.57%	19.15%	17.08%
SMITHVILLE TEL. CO.					
Rate Base	$24,872,821	$25,592,751	$25,812,602	27,448,122	27,960,447
Net Operating Income	$3,542,036	$3,854,736	$3,372,479	3,896,280	4,196,139
Rate of Return	14.24%	15.06%	13.07%	14.20%	15.01%
UNITED TEL. CO. of IN. (d/b/a Sprint)					
Rate Base	$174,189,403	$169,087,324	$161,378,304	151,541,876	150,000,000
Net Operating Income	$17,564,404	$24,967,787	$28,942,234	31,608,977	32,076,000
Rate of Return	10.08%	14.77%	17.93%	20.86%	21.38%

* Ameritech was not required to file this information from 1994 - 1997 based on the order in Cause No. 39705 dated June 30, 1994, commonly referred to as "Opportunity Indiana".

1998 LEC TOTAL COMPANY INCOME STATEMENT DATA

COMPANY	OPERATING REVENUES	DEPRECIATION & AMORTIZATION	INCOME TAXES	TAXES OTHER THAN INCOME	OPERATING EXPENSES
AMERITECH INDIANA	$905,664,646	209,480,673	76,478,055	60,923,702	396,416,526
BLOOMINGDALE HOME TEL. CO.	840,703	104,205	182,977	14,772	630,906
CAMDEN TELEPHONE CO.	1,493,321	163,953	201,773	27,672	751,408
CENTURY TEL. OF CENT. IN, INC.	3,814,425	634,606	687,318	87,028	1,029,315
CENTURY TEL. OF ODON, INC.	1,560,977	293,250	210,459	31,708	588,196
CITIZENS TEL. CORP.	1,921,908	373,039	305,726	53,895	718,928
COMMUNIC. CORP. OF IN.	10,056,544	2,011,956	1,325,791	458,529	3,897,390
COMMUINIC. CORP OF S. IN.	1,908,980	389,314	216,356	66,473	865,466
CONTEL OF THE SOUTH	7,071,000	1,764,000	335,000	234,000	3,021,000
CRAIGVILLE TEL. CO.	825,254	114,659	97,610	12,191	441,233
FRONTIER COMM. OF IN.	1,750,961	154,016	435,846	62,420	520,092
FRONTIER COMM. OF THORNTOWN	1,639,936	181,745	275,959	54,768	727,051
GTE INDIANA (CONTEL)	124,952,000	28,625,000	14,898,000	(2,830,000)	46,635,000
GTE NORTH	607,585,000	125,998,000	77,213,000	21,168,000	257,617,000
GEETINGSVILLE TEL.	460,084	73,910	35,350	15,093	222,478
HOME TEL. CO. OF PITTSBORO	1,917,466	407,687	197,802	67,195	889,932
HOME TEL. CO.	1,996,841	482,822	208,557	58,077	875,866
LIGONIER TEL. CO	2,382,310	377,409	280,368	44,872	1,318,120
MERCHANTS & FARMERS TEL.	838,202	104,415	141,141	9,248	312,772
MONON TEL CO.	1,567,141	247,561	210,183	50,238	730,530
NEW LISBON TEL.CO.	726,634	167,443	76,281	12,264	370,054
NEW PARIS TEL. CO.	2,230,814	358,780	117,168	64,021	1,234,813
NORTHWESTERN IN. TEL. CO.	16,337,747	2,317,171	1,901,857	174,991	9,454,816
ROCHESTER TELEPHONE	4,829,161	732,622	762,759	76,020	2,080,875
SMITHVILLE TEL CO.	19,923,474	4,142,291	2,240,022	446,737	8,896,023
SUNMAN TELECOM. CORPORATION	3,151,315	652,795	64,641	58,305	2,024,037
SWAYZEE TEL. CO.	871,784	158,698	39,844	17,214	596,941
SWEETSER RURAL TELEPHONE	1,218,839	164,364	37,551	22,320	893,659
TIPTON TEL. CO.	3,403,309	561,823	220,167	139,022	2,200,271
TRI-COUNTY TEL. CO.	3,039,277	537,636	123,302	114,304	1,890,927
UNITED TEL. CO. OF IN. (d/b/a Sprint)	184,016,000	33,022,000	18,802,000	6,022,000	90,720,000
WEST POINT TELEPHONE CO.	586,613	145,990	28,282	14,738	340,488
YEOMAN TEL CO.	821,883	142,124	68,053	15,251	477,626
TOTALS	1,921,404,549	415,085,957	198,419,198	87,787,068	839,389,739

1997 LEC TOTAL COMPANY INCOME STATEMENT DATA

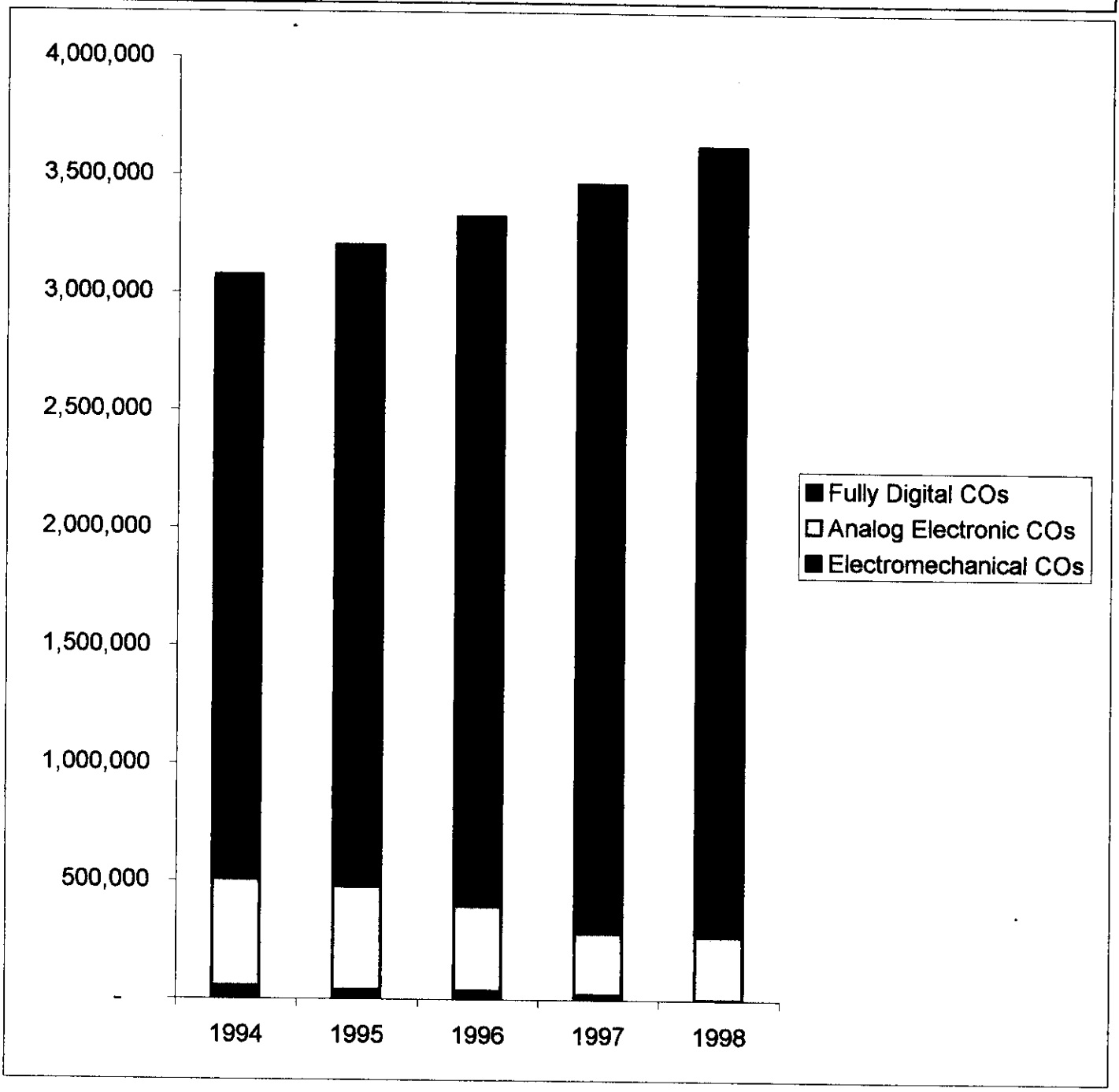
COMPANY	OPERATING REVENUES	DEPRECIATION & AMORTIZATION	INCOME TAXES	TAXES OTHER THAN INCOME	OPERATING EXPENSES
AMERITECH INDIANA	$ 1,272,921,000	$ 197,829,000	$ 153,434,000	$ 46,797,000	$ 593,166,000
BLOOMINGDALE HOME TEL. CO.	647,870	106,812	149,812	13,139	428,117
CAMDEN TELEPHONE CO.	1,503,737	143,523	234,539	20,232	695,456
CENTURY TEL. OF CENT. IN, INC.	3,585,845	621,924	570,506	127,518	1,023,988
CENTURY TEL. OF ODON, INC.	1,390,136	271,509	146,524	25,883	617,968
CITIZENS TEL. CORP.	1,908,242	403,752	313,467	43,825	661,790
COMMUNIC. CORP. OF IN.	9,293,081	1,852,395	1,285,772	399,522	3,445,966
COMMUINIC. CORP OF S. IN.	1,841,115	339,426	210,067	67,388	822,587
CONTEL OF THE SOUTH	6,086,000	1,485,000	398,000	224,000	2,609,000
CRAIGVILLE TEL. CO.	760,551	100,849	101,675	12,108	374,631
FRONTIER COMM. OF IN.	1,729,060	122,502	515,508	82,481	424,895
FRONTIER COMM. OF THORNTOWN	1,571,164	200,664	273,848	56,048	655,376
GTE INDIANA (CONTEL)	113,520,000	22,735,000	14,800,000	4,261,000	38,690,000
GTE NORTH	588,950,000	106,468,000	65,461,000	22,579,000	274,152,000
GEETINGSVILLE TEL.	439,110	71,428	49,122	12,955	180,369
HOME TEL. CO. OF PITTSBORO	1,824,459	380,611	257,179	66,812	692,468
HOME TEL. CO.	1,887,621	478,852	209,949	50,006	782,651
LIGONIER TEL. CO	2,423,615	354,051	337,654	54,855	1,165,992
MERCHANTS & FARMERS TEL.	827,892	93,798	154,831	9,076	272,413
MONON TEL CO.	1,530,860	228,732	212,302	51,309	706,899
NEW LISBON TEL.CO.	711,413	144,705	71,977	16,650	369,234
NEW PARIS TEL. CO.	2,218,597	336,982	112,264	67,419	1,290,162
NORTHWESTERN IN. TEL. CO.	12,680,575	2,139,579	1,163,223	204,734	8,184,504
ROCHESTER TELEPHONE	4,729,437	627,710	833,742	71,325	1,890,622
SMITHVILLE TEL CO.	19,210,232	3,821,604	1,984,408	446,737	9,061,203
SUNMAN TELECOM. CORPORATION	3,169,360	606,800	301,219	66,696	1,642,282
SWAYZEE TEL. CO.	855,660	153,069	27,416	19,348	591,463
SWEETSER RURAL TELEPHONE	1,234,121	147,854	113,102	22,320	782,015
TIPTON TEL. CO.	3,411,742	489,534	345,838	77,672	1,935,084
TRI-COUNTY TEL. CO.	2,850,347	473,445	155,514	67,104	1,652,173
UNITED TEL. CO. OF IN. (d/b/a Sprint)	179,561,000	32,530,000	17,302,000	5,304,000	91,077,000
WEST POINT TELEPHONE CO.	603,744	62,816	56,792	10,544	341,619
YEOMAN TEL CO.	767,966	134,531	75,480	15,661	430,709
TOTALS	2,246,645,552	375,956,457	261,658,730	81,344,367	1,040,816,636

APPENDIX 6-G

TOTAL INCOME STATEMENT DATA - FOUR LARGEST LECs

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
AMERITECH INDIANA						
Operating Revenues	$1,155,605,000	$1,199,028,000	$1,219,154,000	$1,272,921,000	$905,664,646	-5.91%
Depreciation & Amortization	197,845,000	203,565,000	210,708,000	197,829,000	209,480,673	1.44%
Income Taxes	30,956,000	120,095,000	133,262,000	153,434,000	76,478,055	25.37%
Taxes Other than Income	46,050,000	42,839,000	46,374,000	46,797,000	60,923,702	7.25%
Other Operating Expenses	682,066,000	600,463,000	584,781,000	593,166,000	396,416,526	-12.69%
GTE INDIANA (CONTEL)						
Operating Revenues	$110,103,000	$106,083,000	$107,646,000	113,520,000	76,958,776	-8.56%
Depreciation & Amortization	20,053,000	21,122,000	21,982,000	22,735,000	17,187,779	-3.78%
Income Taxes	13,291,000	9,363,000	10,589,000	14,800,000	5,556,149	-19.59%
Taxes Other than Income	3,314,000	3,688,000	38,888,000	4,261,000	4,036,406	5.05%
Other Operating Expenses	43,944,000	48,268,000	43,246,000	38,690,000	35,810,933	-4.99%
GTE NORTH						
Operating Revenues	$489,803,000	$521,292,000	$555,083,000	588,950,000	400,582,710	-4.90%
Depreciation & Amortization	99,729,000	101,625,000	104,763,000	106,468,000	9,788,025	-44.03%
Income Taxes	37,375,000	33,638,000	43,628,000	65,461,000	27,839,418	-7.10%
Taxes Other than Income	19,241,000	20,706,000	19,729,000	22,579,000	27,051,520	8.89%
Other Operating Expenses	244,569,000	283,213,000	275,242,000	274,152,000	172,761,322	-8.32%
UNITED TEL. CO. of IN. (d/b/a Sprint)						
Operating Revenues	$157,277,000	$166,593,000	$173,720,000	179,561,000	114,349,858	-7.66%
Depreciation & Amortization	30,470,000	31,103,000	30,797,000	32,530,000	29,819,600	-0.54%
Income Taxes	7,711,000	10,601,000	15,581,000	17,302,000	9,169,294	4.43%
Taxes Other than Income	5,809,000	5,897,000	6,385,000	5,304,000	6,742,561	3.80%
Other Operating Expenses	93,085,000	60,320,000	90,604,000	91,077,000	46,745,574	-15.82%
Operating Revenues - Total	$1,912,788,000	$1,992,996,000	$2,055,603,000	$2,154,952,000	1,497,555,990	-5.93%
Depreciation & Amortization - Total	348,097,000	357,415,000	368,250,000	359,562,000	266,276,077	-6.48%
Income Taxes - Total	89,333,000	173,697,000	203,060,000	250,997,000	119,042,916	7.44%
Taxes Other than Income - Total	74,414,000	73,130,000	111,376,000	78,941,000	98,754,189	7.33%
Other Operating Expenses - Total	1,063,664,000	992,264,000	993,873,000	997,085,000	651,734,355	-11.53%

Total Switched Access Lines by Type of Central Office Switch



	1994	1995	1996	1997	1998
Electromechanical COs	51,715	35,922	33,100	18,226	-
Analog Electronic COs	456,080	441,379	363,802	265,972	270,103
Fully Digital COs	2,566,387	2,724,452	2,928,422	3,180,329	3,356,193
Total Switched Access Lines	3,074,182	3,201,753	3,325,324	3,464,527	3,626,296

APPENDIX 6-I

TOTAL SWITCHED ACCESS LINES BY TYPE OF CENTRAL OFFICE SWITCH & EQUAL ACCESS (As of Dec. 31, 1998)

COMPANY	ELECTRO MECHANICAL LINES	ELECTRO MECHANICAL PERCENT	ANALOG ELECTRONIC LINES	ANALOG ELECTRONIC PERCENT	FULLY DIGITAL LINES	FULLY DIGITAL PERCENT	EQUAL ACCESS LINES	EQUAL ACCESS PERCENT
AMERITECH INDIANA	-	0.00%	270,103	12.05%	1,970,529	87.95%	2,240,632	100.00%
BLOOMINGDALE HOME TEL. CO.	-	0.00%	-	0.00%	648	100.00%	648	100.00%
CAMDEN TEL. CO.	-	0.00%	-	0.00%	1,847	100.00%	1,847	100.00%
CENTURY TEL. OF CENTRAL IN, INC	-	0.00%	-	0.00%	3,426	100.00%	3,426	100.00%
CENTURY TEL. OF ODON, INC.	-	0.00%	-	0.00%	1,710	100.00%	1,710	100.00%
CITIZENS TEL. CORP.	-	0.00%	-	0.00%	2,525	100.00%	2,525	100.00%
CLAY COUNTY RURAL TEL.	-	0.00%	-	0.00%	12,174	100.00%	12,174	100.00%
COMMUNIC. CORP. of IN.	-	0.00%	-	0.00%	10,533	100.00%	10,533	100.00%
COMMUNIC. CORP. of S. IN.	-	0.00%	-	0.00%	2,066	100.00%	2,066	100.00%
CONTEL of THE SOUTH	-	0.00%	-	0.00%	10,699	100.00%	10,699	100.00%
CRAIGVILLE TEL. CO.	-	0.00%	-	0.00%	1,030	100.00%	1,030	100.00%
DAVIESS-MARTIN RURAL	-	0.00%	-	0.00%	3,576	100.00%	3,576	100.00%
FRONTIER COMM. of IN	-	0.00%	-	0.00%	2,581	100.00%	2,581	100.00%
FRONTIER COMM. of THORNTOWN	-	0.00%	-	0.00%	2,670	100.00%	2,670	100.00%
GEETINGSVILLE TEL.	-	0.00%	-	0.00%	505	100.00%	505	100.00%
GTE INDIANA (CONTEL)	-	0.00%	-	0.00%	202,495	100.00%	202,495	100.00%
GTE NORTH	-	0.00%	-	0.00%	769,697	100.00%	769,697	100.00%
HANCOCK RURAL	-	0.00%	-	0.00%	7,787	100.00%	7,787	100.00%
HOME TEL. CO.	-	0.00%	-	0.00%	2,305	100.00%	2,305	100.00%
HOME TELEPHONE of PITTSBORO	-	0.00%	-	0.00%	2,405	100.00%	2,405	100.00%
LIGONIER TEL. CO.	-	0.00%	-	0.00%	2,682	100.00%	2,682	100.00%
MERCHANTS & FARMERS TEL.	-	0.00%	-	0.00%	547	100.00%	547	100.00%
MONON TEL. CO.	-	0.00%	-	0.00%	1,951	100.00%	1,951	100.00%
MULBERRY	-	0.00%	-	0.00%	2,827	100.00%	2,827	100.00%
NEW LISBON	-	0.00%	-	0.00%	862	100.00%	862	100.00%
NEW PARIS TEL. CO.	-	0.00%	-	0.00%	2,086	100.00%	2,086	100.00%
NORTHWESTERN IN. TEL. CO.	-	0.00%	-	0.00%	12,551	100.00%	12,551	100.00%
PERRY-SPENCER	-	0.00%	-	0.00%	6,023	100.00%	6,023	100.00%
PULASKI-WHITE	-	0.00%	-	0.00%	2,141	100.00%	2,141	100.00%
ROCHESTER TEL. CO.	-	0.00%	-	0.00%	8,211	100.00%	8,211	100.00%
S & W	-	0.00%	-	0.00%	498	100.00%	498	100.00%
SMITHVILLE TEL. CO.	-	0.00%	-	0.00%	30,897	100.00%	30,897	100.00%
SOUTHEASTERN IN. RURAL TEL.	-	0.00%	-	0.00%	4,569	100.00%	4,569	100.00%
SUNMAN TEL. CO.	-	0.00%	-	0.00%	4456	100.00%	4456	100.00%
SWAYZEE TEL. CO.	-	0.00%	-	0.00%	1,124	100.00%	1,124	100.00%
SWEETSER TEL. CO.	-	0.00%	-	0.00%	1,769	100.00%	1,769	100.00%
TCG INDIANAPOLIS	-	0.00%	-	0.00%	2,242	100.00%	2,242	100.00%
TIME WARNER TELECOM OF INDIANA, L.P.	-	0.00%	-	0.00%	4,754	100.00%	4,754	100.00%
TIPTON TEL. CO.	-	0.00%	-	0.00%	5,245	100.00%	5,245	100.00%
TRI-COUNTY TEL. CO.	-	0.00%	-	0.00%	3,684	100.00%	3,684	100.00%
UNITED TEL. CO. of IN. (d/b/a Sprint)	-	0.00%	-	0.00%	240,561	100.00%	240,561	100.00%
WASHINGTON COUNTY RTC	-	0.00%	-	0.00%	3,340	100.00%	3,340	100.00%
WEST POINT TEL. CO.	-	0.00%	-	0.00%	717	100.00%	717	100.00%
YEOMAN	-	0.00%	-	0.00%	1,248	100.00%	1,248	100.00%
TOTALS	-	0.00%	270,103	7.45%	3,356,193	92.55%	3,626,296	100.00%